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SURREY
COUNTY COUNCIL

Making Surrey a better place

Surrey Pension Fund

Annual Report 2009

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.

To say that 2008-2009 was a difficult year would be a massive understatement. As I said in my introduction to the 2007-2008 annual report, the end of the previous financial year saw equity markets finally responding to the turmoil in the credit and banking sectors. This led, in the March quarter 2008, to what was then the biggest quarterly reduction in the value of the pension fund that we could recall. Little did we know that the world-wide economic situation would deteriorate to the point that once stable financial institutions such as Lehman Brothers would collapse, as would the whole of one country's banking system. Paul Meredith, in his annual review on pages 16 and 18, describes some of the key events of 2008-2009.

The statistical summary on page 6 shows the impact of the consequent turmoil in world markets – a fall in the market value of the Fund's assets of £368m in 2008-2009. Had 9 March (which saw the low point in the Fund's value at £1.262b) been year-end we would have been reporting an annual fall in the market value of over £500m, an amount greater than the Fund deficit as at the last actuarial valuation. There has been a recovery in asset values since and, at the time of writing, the Fund is valued at around £150m higher than it was on 31 March.

The average local authority fund returned –19.9% in 2008/09, the worst outcome recorded in the 30 years since the WM universe began. The Surrey Fund return of –24.7% is behind that of the local authority average primarily due to the impact of hedging 50% of the Fund's exposure to US dollars, the Euro and Japanese Yen. This placed the Fund in the 88th percentile in the league table of local authority returns. Had the hedge not been in place the Fund would have returned –20.8%. Performance figures for the Fund's managers are shown on page 22.

Over the year we made no changes to either the Fund's asset allocation strategy or to the managers mandated to run the Fund, unlike in the previous two years. We did, however, appoint Mercers as investment consultant and we also joined the Local Authority Pension Fund Forum early in 2009. The latter demonstrates a commitment to socially responsible investment and the promotion of high standards of governance and corporate social responsibility.

Given the long-term nature of the Fund's liabilities do we really need to worry about the fall in the market value? Given that we are less than a year away from the 2010 actuarial valuation the answer is a qualified 'yes'. Based on assumptions made during the 2007 valuation we would expect the Fund value to be around £2bn at the end of March 2009 – therefore we are behind expectation by over £600m. This gap does not factor in the ongoing improvement in longevity rates or the impact of changes in the discount rate used to value liabilities. This is the big unknown factor – if there is a favourable movement in gilt yields then we could be looking at the deficit being wiped out, even if asset values do not reach the levels that we expected when the 2007 valuation took place. We can only wait and see.

Between now and 31 March 2010 we will be looking very carefully at how we can mitigate the impact of the 2010 actuarial valuation. Our Funding Strategy Statement will continue to state our aim of keeping contribution rates stable and affordable while making prudent assumptions. However, we may have to take some extreme measures to enable all three of these aims to be achieved. We will be consulting with employers and the Fund actuary this autumn on the assumptions that will be used during the 2010 valuation.

The issue of public sector pensions has become something of a media hot potato – not many weeks go by without the phrases 'pensions apartheid' and 'gold-plated public sector pensions' being mentioned somewhere in the media. At the time of writing we are awaiting the publication of the government's latest consultation paper on the future of the LGPS. There is acceptance that the scheme must evolve but there is an imperative for changes to be made before the full impact of the 2010 valuation is felt. What changes could we expect to see? The most logical would be to raise the retirement age in line with state pension. Another option would be to introduce career average pensions. No doubt there will be pressure from the membership to resist changes that may be detrimental to their own position. However, these changes may inevitable to ensure the long-term sustainability and survival of the scheme.

Philip Walker
Head of Finance
June 2009

Members and Advisers

Administering Authority	Surrey County Council County Hall Kingston upon Thames Surrey KT1 2EA
Administrator	Head of Finance
Investment Advisers	
County Council Members	Denise Le Gal (from September 2009) Chair Michael Gosling (from September 2008) David Harmer (to June 2009) Peter Langham (to June 2009) John Orrick (from September 2009) Val Tinney (to September 2008) Chris Slyfield (to June 2009) David Wood (from September 2009)
Representatives of Employing Bodies	Cllr Nick Harrison, Reigate & Banstead BC (to June 2009) Cllr Paul Tuley, Runnymede BC Cllr Stuart Selleck, Elmbridge BC (from September 2009)
Employee Representative	Don Josey
Professional Investment Advisers	Sanjay Mistry, Mercer Ltd (from September 2008) Martyn James, Mercer Ltd (from September 2009) Paul Meredith, Independent
Head of Finance	Philip Walker
Pension Fund & Treasury Manager	Tracey Milner
Pensions Manager	Paul Baker

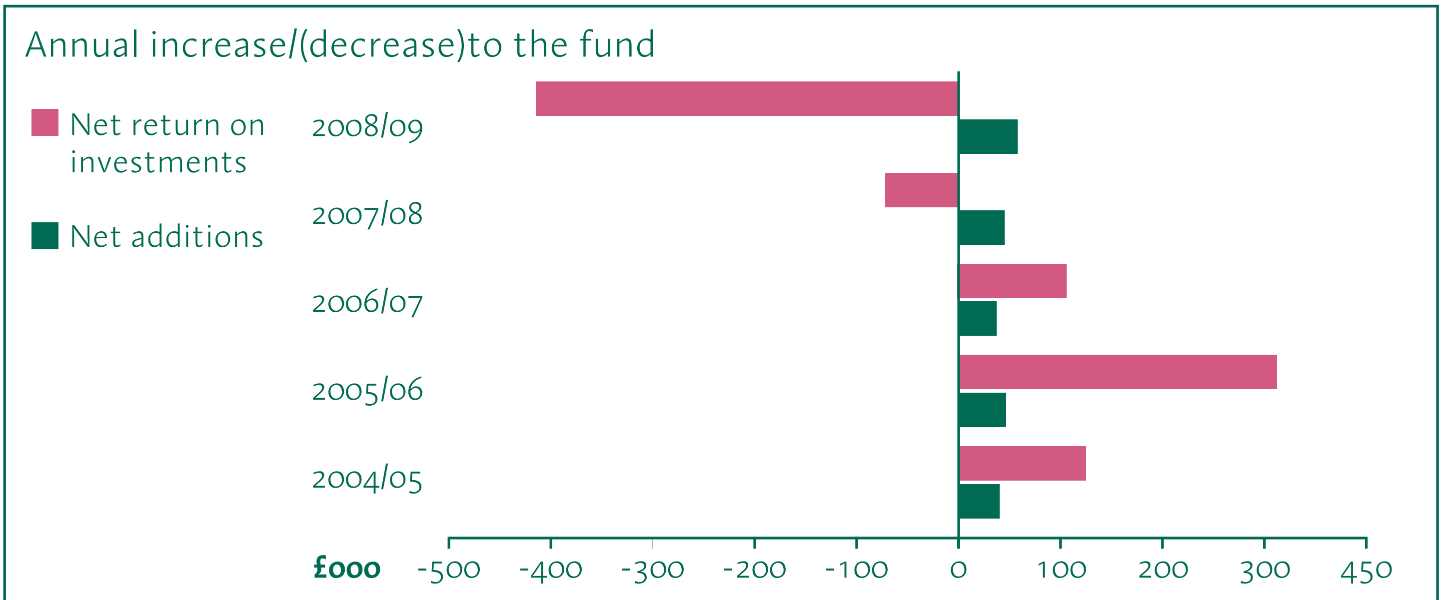
Fund Managers	Esemplia Emerging Markets ING Real Estate JP Morgan Asset Management Legal and General Investment Management Majedie Asset Management Marathon Asset Management Mirabaud Investment Management Ltd Newton Investment Management TCW Investment Management Company UBS Global Asset Management Western 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

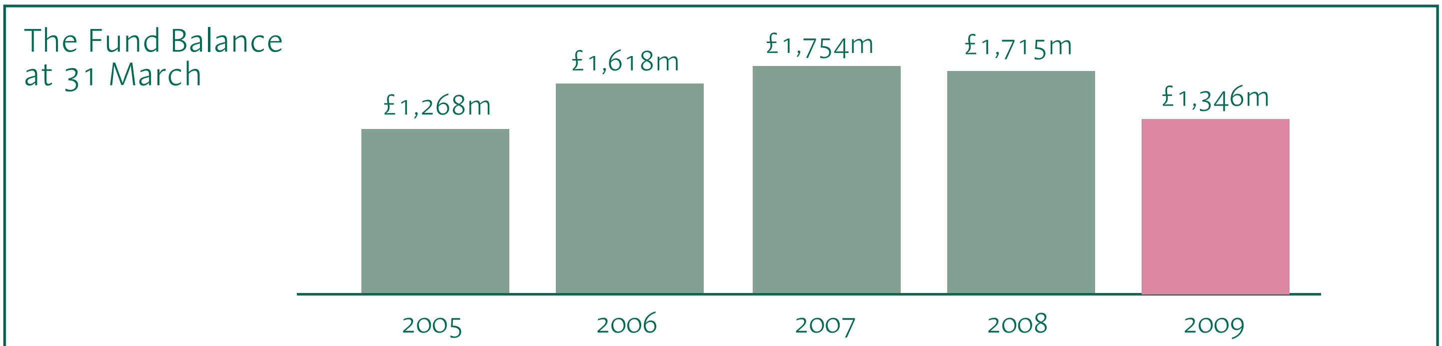
Five Year Profile

Financial Summary

	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000
Contributions	107,106	122,046	120,932	133,749	145,998
Less benefits and expenses paid	77,272	81,393	92,422	94,664	94,484
Net additions	**29,834**	**40,653**	**28,510**	**39,085**	**51,514**
Net investment income **	24,516	27,900	30,600	32,278	36,220
Change in Market Value	107,797	281,492	76,770	-110,227	-456,126
Net return on investments	**132,313**	**309,392**	**107,370**	**-77,949**	**-419,906**
Net increase in Fund	**162,147**	**350,045**	**135,882**	**-38,864**	**-368,392**
Fund Balance at 31 March (Market Value)	**1,267,702**	**1,617,747**	**1,753,629**	**1,714,765**	**1,346,373**

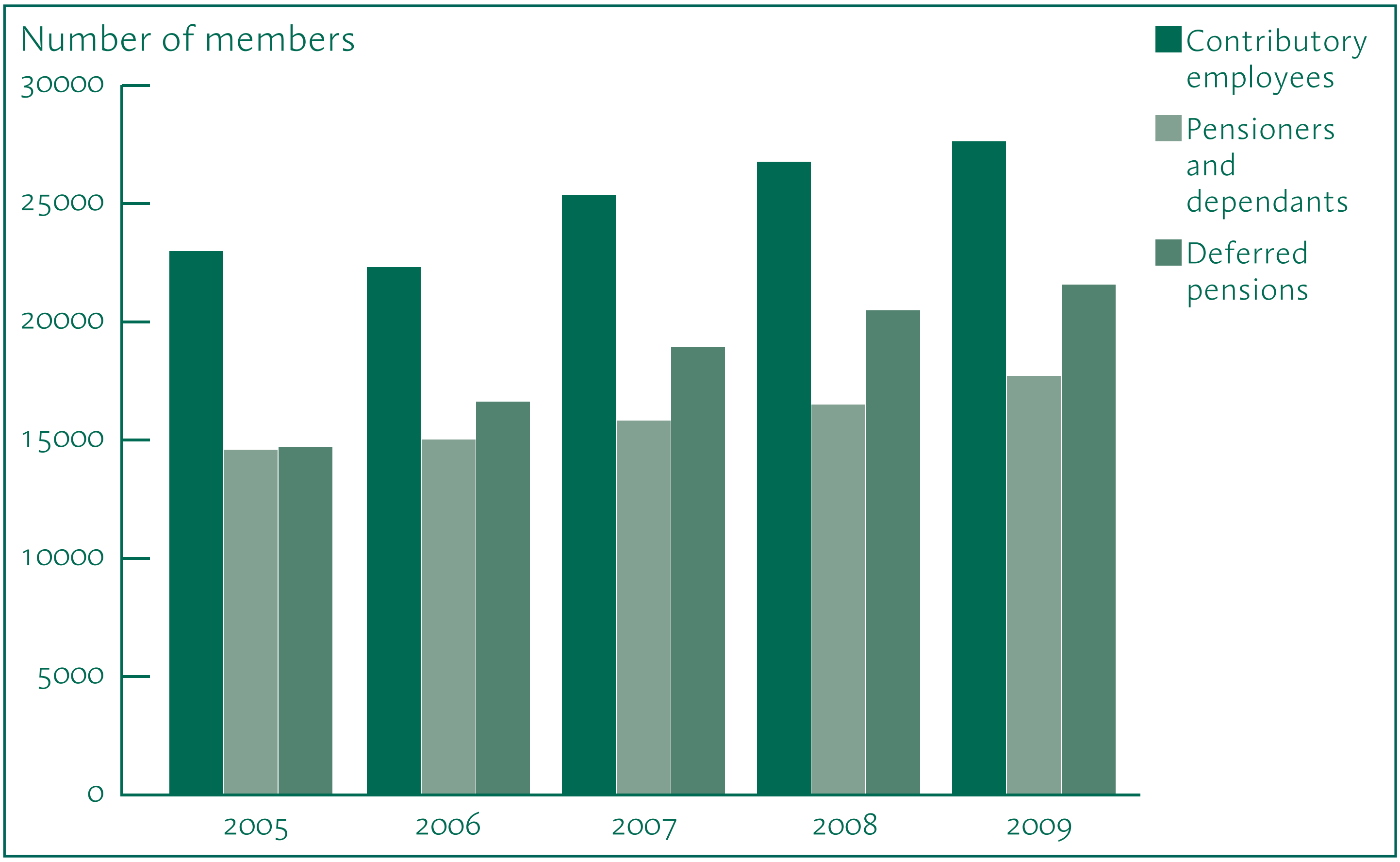
Note: **Net of expenses





Membership Summary

	2004/05	2005/06	2006/07	2007/08	2008/09
Contributory Employees					
Scheduled Bodies	21,184	21,043	23,771	25,489	26,791
Admitted Bodies	1,796	1,719	1,574	1,509	1,438
	22,980	**22,762**	**25,345**	**26,998**	**28,229**
Pensioners and Dependants					
Scheduled Bodies	13,736	14,109	14,815	15,389	16,027
Admitted Bodies	839	906	997	1,109	1,190
	14,575	**15,015**	**15,812**	**16,498**	**17,217**
Deferred Pensions					
Scheduled Bodies	13,674	15,431	17,615	19,053	20,854
Admitted Bodies	1,037	1,189	1,321	1,441	1,520
	14,711	**16,620**	**18,936**	**20,494**	**22,374**
	52,266	**54,397**	**60,093**	**63,990**	**67,820**



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 53. 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 regulations 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 the maximum freedom 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	-	£12,000	5.5%
£12,000.01	-	£14,000	5.8%
£14,000.01	-	£18,000	5.9%
£18,000.01	-	£30,000	6.5%
£30,000.01	-	£40,000	6.8%
£40,000.01	-	£75,000	7.2%
£75,000.01 or more			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 2008/2009.

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 2008/2009

The results of the actuarial valuation undertaken at 31 March 2007 apply 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 is 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 66.

The contributions payable by scheme employers in 2008/2009 are shown on pages 53-55.

Future Contribution Rates

The Fund Actuary, on completion of his triennial review of the Fund as at 31 March 2007, determined contribution rates applying in the three-year period commencing 1 April 2008. He assessed the Fund's current and future liabilities and determined that it was necessary to increase the rate of employers' common contribution from 11.6% to 14.7% of pensionable payroll. He also estimated that, following the introduction of tiered employee contribution rates, the average employee contribution rate was expected to be 6.6% of payroll. He also determined 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).

The Contribution rates applying from 1 April 2008 for all employers can be found in the 2008-2011 Funding Strategy Statement (page 38).

A revised Funding Strategy Statement will be produced and consulted on ahead of the 2010 triennial actuarial valuation.

Annual Review

The new Local Government Pension Scheme was introduced on 1 April 2008, bringing in major changes to the pension provisions of the old scheme. The new scheme currently only applies to employee members of the scheme. Councillor members of the scheme are still governed by the provisions of the old scheme. However, this year the government intends to consult on the extent to which the pension provisions applying to councillors can be brought in line with the new scheme provisions.

The following is a summary of the main changes under the new scheme:

Membership

Employees will only be able to join the scheme if they have a contract of employment of three or more months' duration.

Contributions

Under the old scheme the majority of employees paid 6% of their pay in pension contributions, with some ex-manual workers paying a lower rate of 5%. Under the new scheme employees pay pension contributions at a rate determined by their full time equivalent level of pay as follows:

FTE Pay			Contribution Rate
£0	-	£12,600	5.5%
£12,600.01	-	£14,700	5.8%
£14,700.01	-	£18,900	5.9%
£18,900.01	-	£31,500	6.5%
£31,500.01	-	£42,000	6.8%
£42,000.01	-	£78,700	7.2%
£78,800.01 or more			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 from 1 April 2009.

The increase in contribution rate for ex-manual worker employees paying 5% will be phased in, with gradual increases each April, so that by April 2011 they will be paying the appropriate rate under the above table.

Benefit structure

The pension accrual rate in respect of pensionable service from 1 April 2008 increased from 1/80th of final pensionable pay to 1/60th, but there is no provision for the automatic payment of a lump sum. However, a lump sum can be provided for by commuting part of the pension at the rate of £12 of lump sum for every £1 of pension commuted. Pension benefits accrued up to 31 March 2008 remain unchanged and will be calculated at the rate of 1/80th pension and 3/80th lump sum.

The normal retirement age of 65 remains the same under the new scheme. In cases of normal voluntary retirement before age 65, pension benefits are subject to an actuarial reduction if taken between age 60 and 65. However, if under the old scheme a member would have had the right to receive an unreduced pension between age 60 and 65 under the 85-year rule, they will continue to be able to do so in respect of pension benefits that accrued in respect of service up to 31 March 2008. (The 85-year rule is where the member's age plus pensionable service in whole years equals or exceeds 85).

Additional protection applies to scheme members who reach age 60 and satisfy the 85-year rule before 1 April 2016. In these cases a reduction will also not be applied to benefits accrued in respect of service from 1 April 2008 to 31 March 2016.

Dependant's pensions

Members can now nominate a cohabiting partner to receive a survivor's pension in the event of their death. To qualify the couple must have lived together for a minimum of two years, be financially interdependent and not married or in a civil partnership with another person.

Ill health retirement

A three-tier ill health retirement arrangement has replaced the single tier arrangement of the old scheme. The old scheme provided the same scale of benefits to all members who were retired on permanent ill health grounds, irrespective of the level of their incapacity or potential re-employment capability. The intention of the three-tier system is to provide a greater level of benefits to those who are most in need.

Death benefits

The lump sum death in service payment is increased from two to three years pensionable pay.

The minimum pension payment guarantee will be increased from five years pension to ten years. This means that if a pensioner dies within 10 years of retirement, a lump sum death grant will be paid of ten years pension less the amount of pension paid from retirement to the date of death.

Purchasing additional pension

Scheme members are no longer able to purchase additional periods of service (added years contracts). Instead of buying added years the new scheme provides the facility to purchase specific amounts of additional annual pension from £250 to £5,000. Members with added years contracts taken out under the old scheme are permitted to continue with these contracts.

New Scheme Employers

Compton Parish Council joined the scheme on 21 May 2008

Fusion Lifestyle joined the scheme on 1 December 2008

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 1998 (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 used by the administering authority or lent to other local authorities, 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.

Surrey has decided to maintain its existing investment policy at this moment in time. However, a temporary increase in the amount that could be invested in unit trust schemes managed by any one body – from 25% to the 35% permitted by Regulations – was applied 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.

At Surrey the responsibility for the overall direction of the Fund's investment is delegated to the Head of Finance who acts in consultation with the Chairman 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 ISIS Equity Partners, H G Capital, Blackrock, Goldman Sachs and Standard Life Capital Partners with some residue funds in Bridgepoint Capital (formerly funds managed by Gartmore Asset Management). At 31 March 2009 the market value of assets under management (excluding assets held by Surrey County Council) was £1,277 million; 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	316.3	24.8%
Active Core			
Western Asset Management	Fixed Interest	208.2	16.3%
ING Real Estate	Property	80.1	6.3%
UBS Global Asset Management	UK Equities	131.5	10.3%
Majedie Asset Management	UK Equities	80.1	6.3%
Mirabaud Investment Management	UK Equities	50.2	3.9%
Marathon Asset Management	Global Equities	153.7	12.0%
Newton Investment Management	Global Equities	102.9	8.1%
Active Regional Specialist Equity			
TCW	US Equities	30.0	2.3%
JP Morgan	Pacific Basin inc. Japan Equities	40.8	3.2%
Esemplia Emerging Markets	Emerging Markets	44.9	3.5%
Other	Private Equity	36.6	2.9%
	Residual cash*	1.7	0.1%
TOTAL		1,277.0	100.0%

*Cash balances related to the mandates of terminated managers

Market Background

(Courtesy of Paul Meredith, independent investment adviser)

Economic and Market Background

The year started with the credit crunch exposing inexorably former banking folly, based on the origination, packaging and dissemination of increasingly dubious mortgage and consumer debt. However, the rescue of a significant US investment bank, Bear Stearns, by JP Morgan Chase and the ability of many banks to raise fresh capital from sovereign wealth funds and by rights issues from existing shareholders provided hope for a gradual return to more normal credit conditions. A mild recession was expected in the US, Europe and Japan with China and other emerging markets largely unscathed.

Then in September another large investment bank, Lehman Brothers, was allowed to collapse by the US authorities. Attempts were made to project this as carefully considered action to restrain "moral hazard" but it appeared more as a failure to complete fractious last minute rescue negotiations. The shock was profound: no financial institution now seemed too big to fail. The insurance giant AIG required US State aid because of its credit derivative contracts, designed to allow banks to circumvent capital requirements. Confidence vacillated with every twitch in US policy on "troubled assets". Despite the widespread injection of public money, many inter-bank markets ceased to function, including those for the "toxic" products of the former banking binge: credit contraction was going to be severe and liquidity evaporated.

A global recession loomed. Trade finance was withdrawn and empty container ships sat outside idle ports, factories shut down and workers were laid off. Renewed and more violent unwinding of leverage contributed to significant falls in all risk assets, including equity, corporate debt, commodities, hedge funds and the "carry" trade in higher yielding currencies, which contributed to a sharp fall in sterling.

Global equities eventually returned – 43% in US dollars for the year, even after a significant rally from early March, based mainly on some abatement in de-stocking by companies and de-leveraging by investors. The global equity return to the UK investor was – 20%, cushioned by sterling falling by 28% against the US dollar; sterling also fell by 14% against the Euro. Unsurprisingly financial stocks were particularly weak and capital goods and "big ticket" consumer goods like cars and their component parts were also hit hard: conversely pharmaceuticals were relatively strong.

In sterling UK equities returned – 29% and were one of the weaker markets with the rest of Europe at – 31% and emerging markets at – 27%: US equities at – 14% and Japan at – 11% were reasonably resilient, at least for UK investors. UK gilts returned +10% and index-linked -1% but all credit suffered severely, particularly banking debt, and the ML sterling non-gilt index returned – 6%. UK property proved very vulnerable to credit withdrawal and returned – 27% as activity seized up. There was limited comfort from investment in hedge funds, currency funds or commodities. Private equity valuations have yet to reflect the downturn.

Economic Outlook

Consumer spending is weak, capital spending has been cut and companies are laying off workers and postponing investment, particularly cross-border investment. General Motors, the iconic 20th Century international corporation, has finally gone into receivership. Newly emergent economies in Eastern Europe are suffering severely from borrowing in the Euro, against which their currencies have fallen sharply. Developed world economies are now expected to contract in aggregate by 4% in 2009, which would be by far the deepest synchronised downturn since the 1930s. Such forecasts seem to project current conditions for a quarter or two followed by a quick return to perceived normality. But prediction is perilous with conditions having deteriorated so quickly. Also remedy is now largely in the hands of governments, aware of inadequate action in the 1930s US great depression and more recently in Japan but also juggling with rapidly deteriorating budget imbalances, without the windfall tax receipts of the boom years.

The G20 group of 20 leading economies may have headed off any immediate repeat of the disastrous "trade war" tariffs of the 1930s but there are still significant policy differences. The exporting nations with big trade surpluses, such as China and Germany, view the importers' trade deficits as a problem of their own past profligacy. However if the exporters do not stimulate domestic consumption then imbalances will continue to haunt international coordination of trade and regulation and threaten further currency instability.

Now that the immediate risk of banking paralysis seems to have been averted, attention will focus on re-establishing credible national budgets. This will not be easy, particularly in the UK. Credit and demand are now being supported by a number of extraordinary government measures, including very low interest rates, temporary tax breaks, guarantees to banks and "quantitative easing", backed only by putative future tax increases. Even with this exceptional government involvement, credit remains tight due to the withering of both securitisation and lending by foreign banks, with bailouts only ever intended for domestic lending. Retained bank profits can only very gradually fill this gap. Recession is exposing the inadequacy of national regulation of global activities. Competition and self-interest no longer expected to control banking effectively. Banks either need to be restrained in size and scope or require much more capital. This will remain an intractable problem, particularly for those economies that host banks, which are disproportionately large relative to the rest of their economy.

There are recent tentative signs in the US from housing and consumer spending that demand is stabilising. Sterling weakness may help to stimulate the UK ahead of most other European economies. However with public spending likely to be heavily restrained for many years, the strength and sustainability of any recovery is very dependent on private sector capital investment and consumer confidence.

Strategic Asset Allocation

Ultimately the main asset in any economy is the expertise and energy of its people, provided that the political and legal systems encourage enterprise as well as public service. Certainly there is evidence from the US great depression that, albeit after several years, economic recovery can close the gap with earlier growth apparently foregone. Even Germany and Japan recovered remarkably quickly after 1945. An increase in holdings of low risk assets would imply that this time it is different or at least that it is only the exporting countries that will replicate this past experience. Many companies do need to rebuild their balance sheets through equity issues and dividend cuts but “mark to market” accounting has exacerbated the downturn in profits and it will also accentuate eventual recovery. On broad long-term earnings and replacement asset criteria, equities look reasonably valued, even after the significant bounce since March. Indeed since late 2008 for the first time for 50 years the dividend yield on UK equities has exceeded that on long government bonds.

Therefore the bulk of the Fund continues to be held in equities to produce the higher long-term returns that should help to minimise employer contributions. Government and corporate debt, property and other alternatives provide diversification, though, except for government debt, probably to a lesser extent than generally supposed before the “crowding and correlation” of the last two years. For property, where the credit cycle is likely to be protracted, further allocations are suspended and held temporarily in bonds.

Fund Management

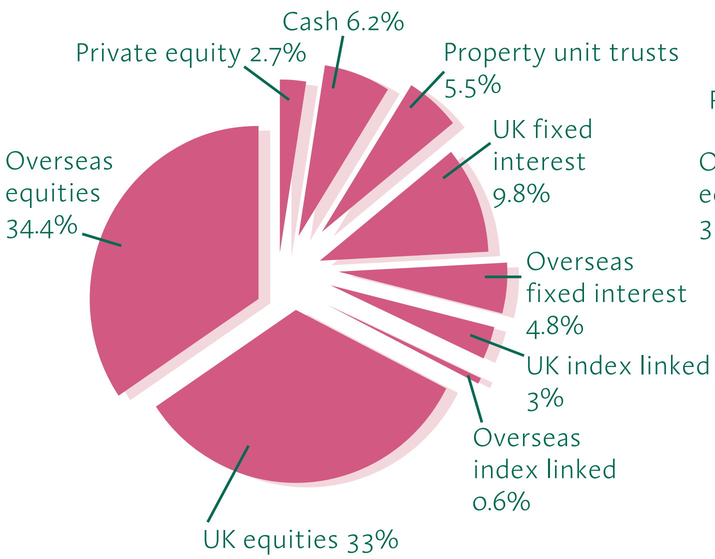
The dislocation in financial markets has not only signalled the end to the credit binge but also to associated momentum investment strategies, typically taking on risk effectively as permanent “gearing”. Where the fund has suffered in 2008/2009 there are signs in the opening months of the current year of significant recovery particularly in currency hedging. The overall structure and all the managers remain under active review to help ensure the best possible prospect of adding long-term value.

Portfolio Distribution

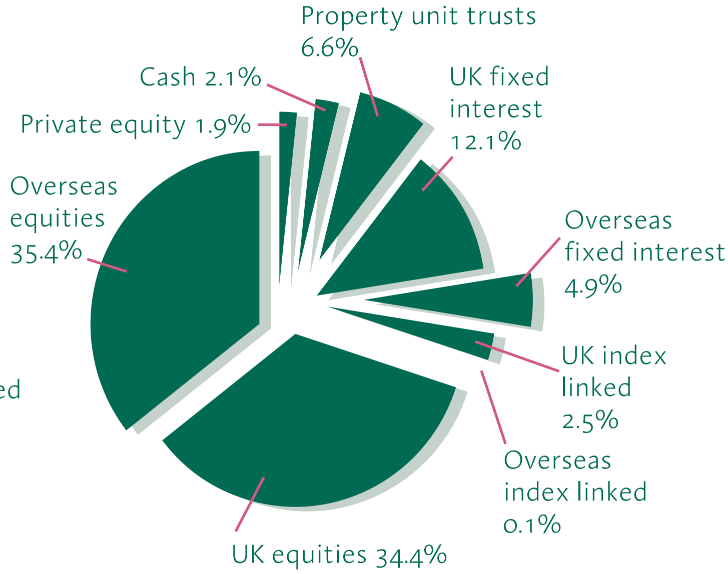
The distribution of the portfolio at 31 March 2009 is shown below. The larger chart shows distribution over the entire structure of the portfolio, whereas the smaller chart provides more detailed analysis of the overseas equity sectors.

Portfolio distribution at 31 March

31 March 2009

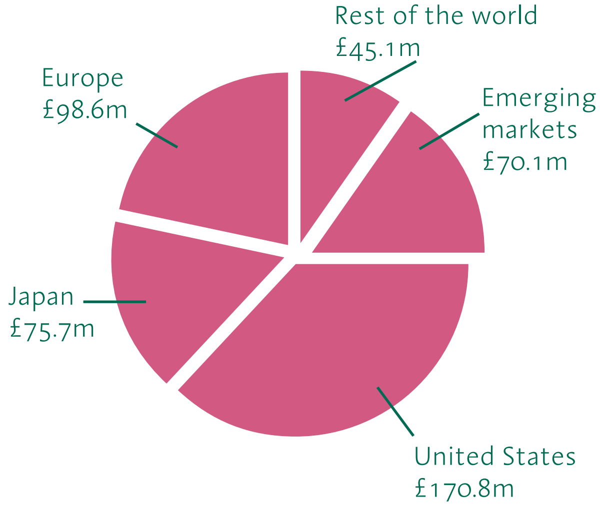


31 March 2008

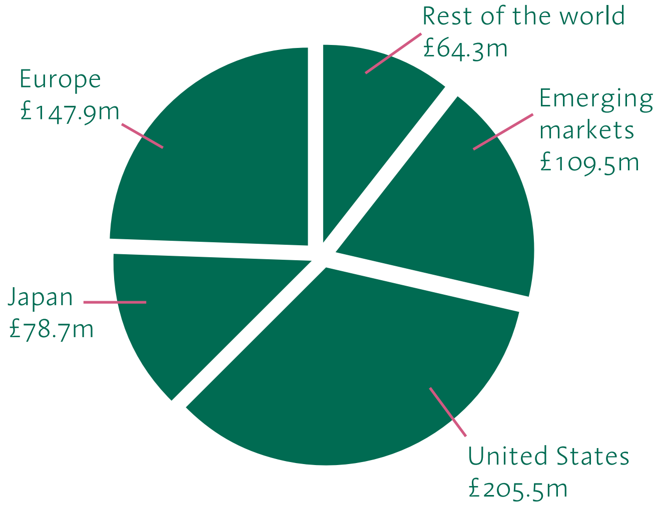


Overseas equities distribution at 31 March

31 March 2009

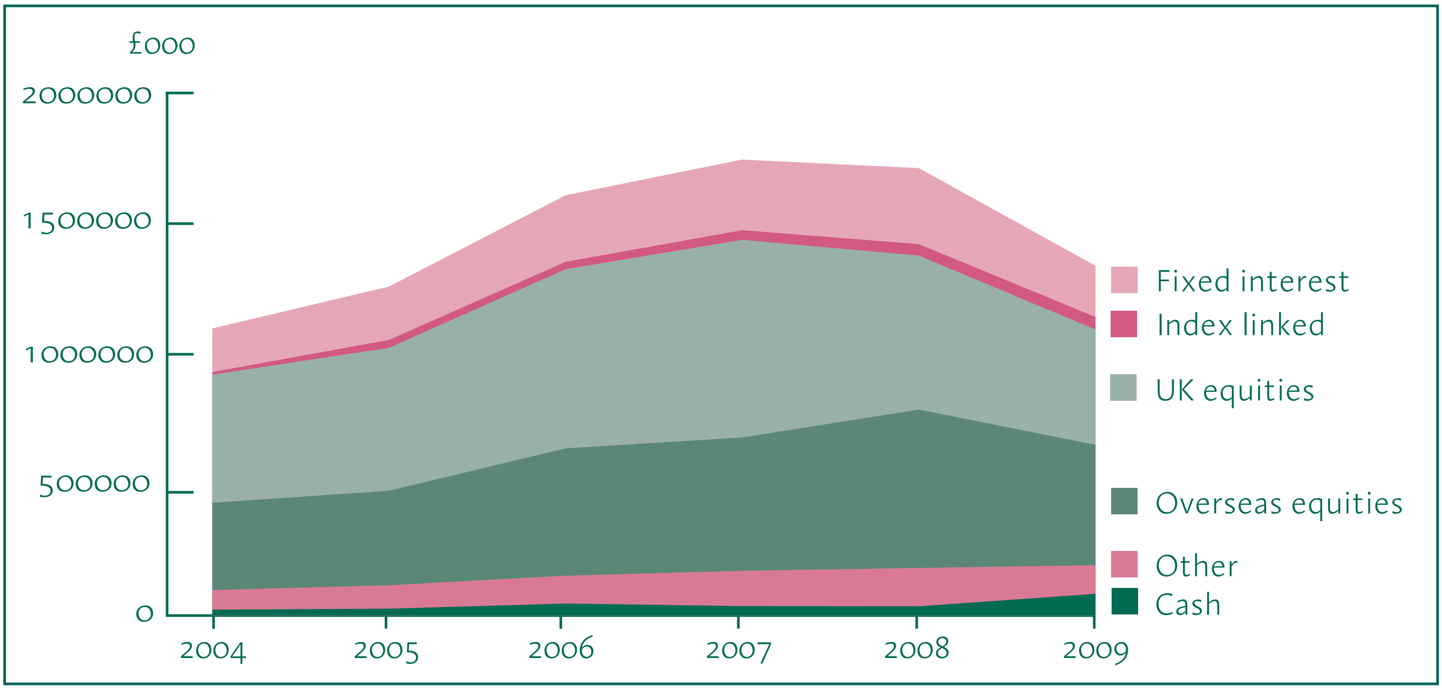


31 March 2008



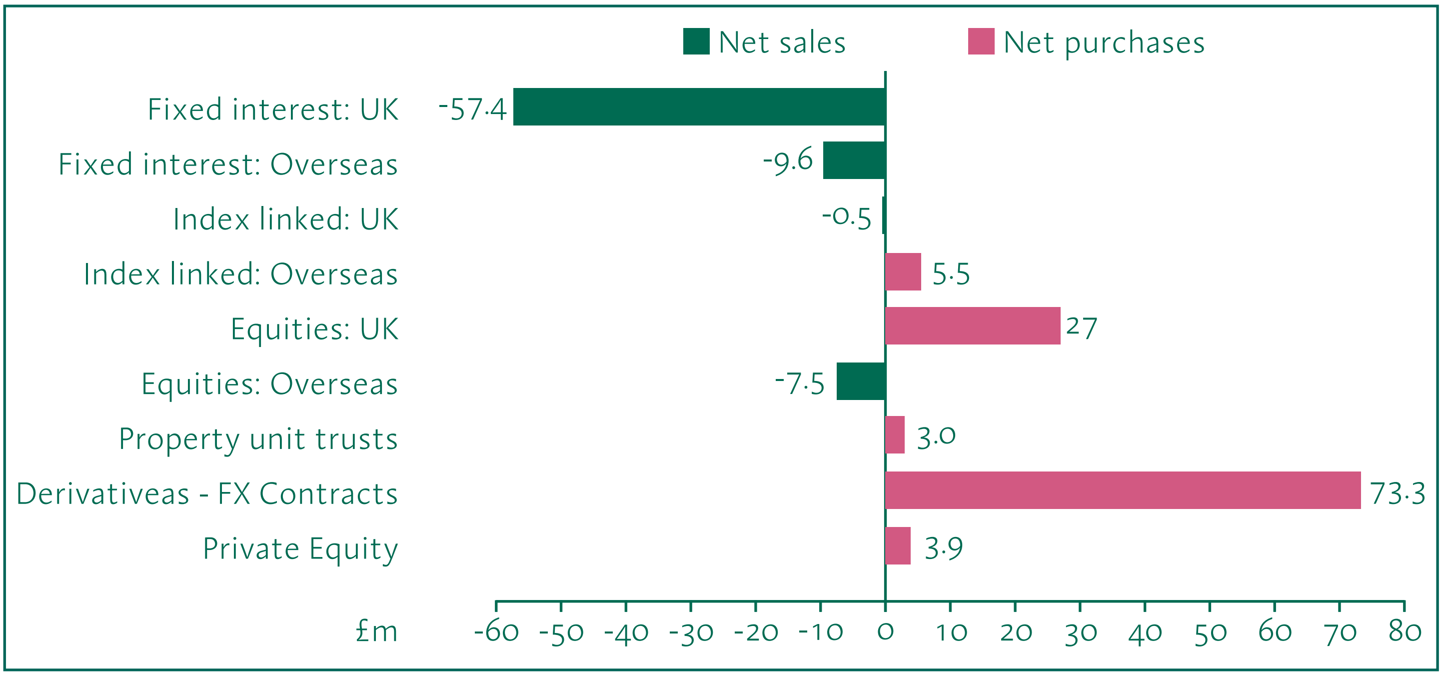
Investment Distribution

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



Investment Activity

The net investment activity during the year ended 31 March 2009 is reflected in the chart below.

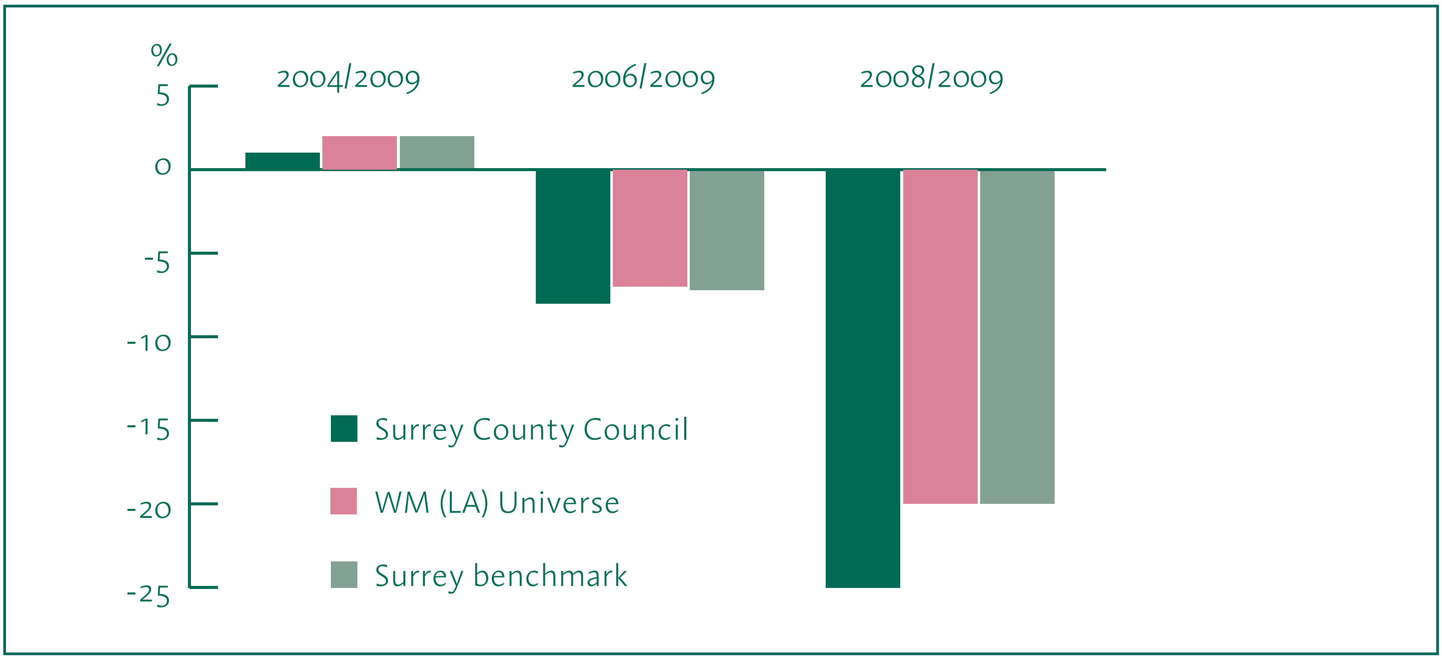


Investment Performance

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.



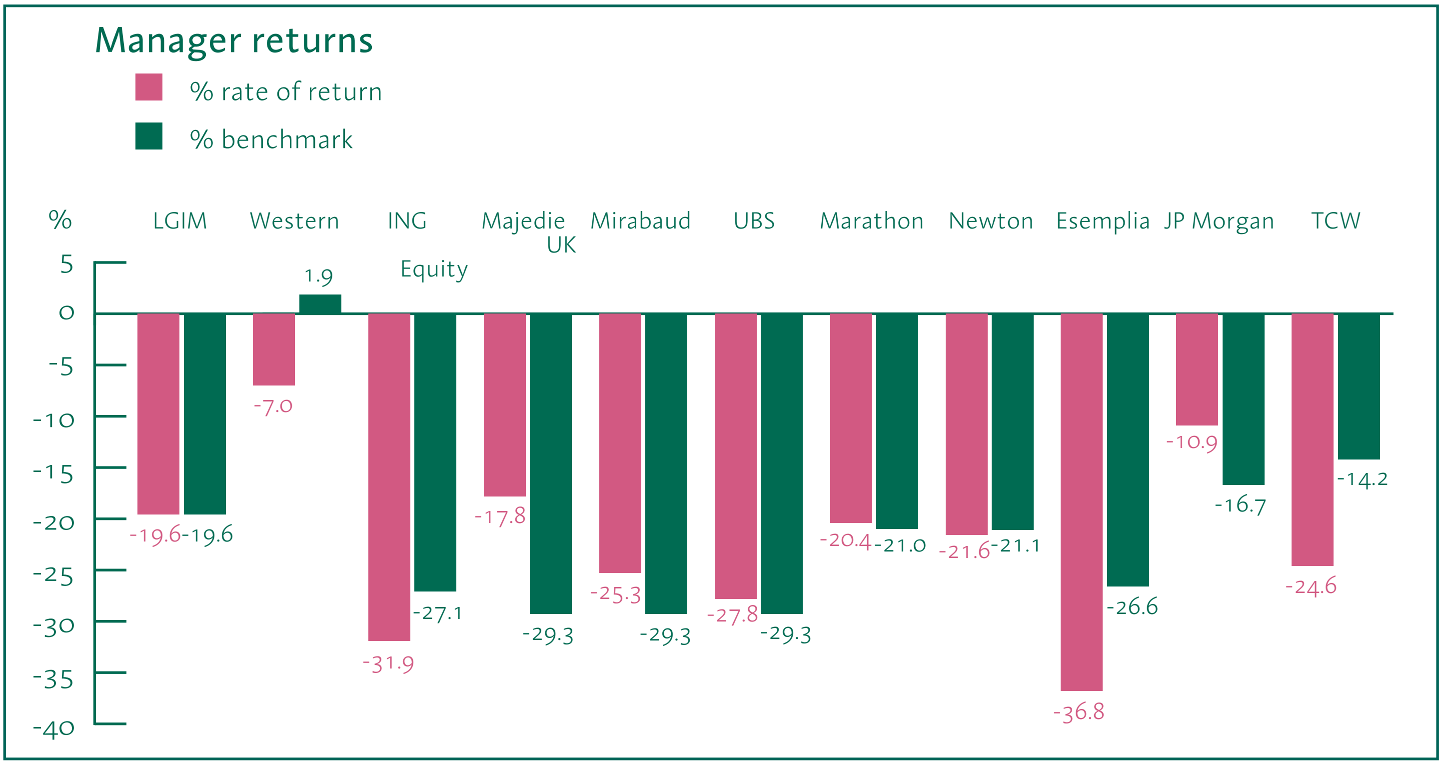
Annual returns over each of the last five years, and for three, five and ten years were as follows:

Financial Years	SCC %	WM Local Authority Universe %	WM Ranking	Surrey Benchmark %
2008-2009	-24.7	-19.9	88	-20.0
2007-2008	-4.4	-2.8	68	-3.3
2006-2007	7.0	7.0	50	7.0
2005-2006	24.9	24.8	40	26.3
2004-2005	11.6	11.7	40	11.5
2006-2009 (3 year average)	-8.3	-5.9	81	-6.1
2004-2009 (5 year average)	1.5	3.1	80	3.1
1999-2009 (10 year average)	1.3	2.0	69	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 2009 for each fund manager, and by the major asset classes, are shown below.



Returns by asset class

	Annual return Portfolio %	 Index %
UK Equities	**-26.9**	**-29.3**
Overseas Equities	**-21.9**	**-19.6**
North America	-17.9	-14.0
Europe	-29.0	-31.1
Japan	-7.2	-10.6
Pacific Basin	-18.4	-23.1
Emerging Markets	-30.8	-26.8
UK Gilts	**9.7**	**10.3**
UK Corporate Bonds	**-19.1**	**-5.9**
Overseas Bonds	**30.1**	**36.7**
Index Linked	**-1.9**	**-1.3**
Property	**-34.0**	**-25.5**
Total Fund	**-24.7**	**-20.0**

Performance Commentary

The average local authority fund returned – 19.9% in 2008/2009, the worst outcome recorded in the 30 years since the WM universe began. The Surrey Fund return of – 24.7% is behind that of the local authority average primarily due to the impact of hedging 50% of the exposure to US dollars, the Euro and Japanese Yen. Had the hedge not been in place the Fund would have returned – 20.8%, marginally behind the customised benchmark return of – 20% and the WM average return.

2008/2009 saw poor aggregate returns for pension funds, evidenced by negative returns for the Surrey benchmark, the Surrey Fund and Local Authority universe. These negative returns were driven by the poor performance of most asset classes, with some respite in fixed income.

Fund manager performance in aggregate had a marginal impact on the position in the local authority survey (adding to the return relative to the average by 0.2%).

Statement of Investment Principles

1 Overall Responsibility

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments. To content of this Statement reflects the County Council's compliance with the requirements of the Myners Review of Institutional Investment, which follows.

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.

Investment policy and associated monitoring and review are delegated to the Head of Finance 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 Head of Finance

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 County 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	

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 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 Fund structure at the time of writing:

	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		
US Equity	TCW	3.0
Pacific Basin Inc Japan Equity	JP Morgan	3.0
Emerging Markets Equity	Legg Mason International Equities	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.

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 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 the managed Fund (i.e. excluding private equity):

	Target Allocation %
Bonds	
Gilts	8
Corporate Bonds	8
Index-Linked gilts	4
Property	8
Total Bonds/Property	28
UK Equity	36
Overseas Equity	
North America	14
Europe ex UK	9
Japan	6
Pacific ex Japan	3
Emerging markets	4
Total Equity	72

The Investment Advisers Group will keep a watching brief on the suitability of the Fund benchmark until it is formally reviewed in 2010-2011.

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 2008-2009.

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) 1998 (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 performance is measured, is shown below in detail. The IAG considers the Fund's overall 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.

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	

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.

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 and members.

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.

During 2008/2009 the Fund joined 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.

13 Administration

On behalf of the County Council, the Head of Finance 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 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.

Myners Investment Principles – Compliance Statement

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

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.

There is an Investment Governance sub-group specifically for the LGPS (including representatives of CLG and CIPFA) who are amending the principles to fit the LGPS. Until these amendments are agreed, consulted on and following a revision of the LGPS regulations, it is a statutory requirement to continue reporting against the original ten principles until instructed otherwise by CLG.

The following summarises these principles and explains how Surrey County Council has complied with the principles. Further information is available in the Statement of Investment Principles.

Principle 1
Effective Decision-Making

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advise they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment sub-committee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

✓ **Full compliance – a rolling programme of training is in place for the Investment Advisers Group. The group is supported by the Head of Finance and Pension Fund and Treasury Manager**

Principle 2
Clear Objectives

Trustees should set out an overall investment objective for the fund that:

- Represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and
- Takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.

✓ Full compliance – the Fund's overall objectives are defined in a Funding Strategy Statement and are directly linked to the findings of 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 next review will take place in late 2009.

Principle 3
Focus on Asset Allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.

Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.

✓ Full compliance – a customised benchmark has been in place since 2000 and was reviewed as part of the 2006 ALM Study. A further review will take place in 2009. The fund continues to invest in private equity.

Principle 4
Expert Advice

Contracts for actuarial services and investment advice should be opened to separate competition.

The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

✓ Full compliance – the Fund has separate actuarial and professional investment advisers.

Principle 5
Explicit Mandates

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:

- An objective, benchmark(s) and risk parameters that together with all other mandates are coherent with the fund's aggregate objectives and risk tolerances;
- The manager's approach in attempting to achieve the objective; and
- Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives.

Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.

✓ **Full compliance – the investment management agreements that were put in place in 2004 (following the appointment of new fund managers) and 2007 clearly state each manager's objectives and parameters within which they are able to work to meet their objectives. Transaction costs are disclosed by the fund managers in line with industry best practice, and are monitored on a quarterly basis.**

Principle 6
Activism

The mandate and trust deed should incorporate the principle of the US department of Labor Interpretative Bulletin on activism.

Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

✓ **Full compliance – the Statement of Investment Principles sets out the Fund's approach to corporate governance. Fund mangers are expected to engage with companies in which they invest on the Fund's behalf and have delegated authority to exercise the Fund's voting rights.**

During 2008/2009 the Fund joined 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.

Principle 7
Appropriate Benchmarks

Trustees should explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;

- if setting limits on divergence from the index, ensure that they reflect the approximations involved in index construction and selection;
- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and
- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.

✓ Full compliance – customised benchmark and tolerance ranges for divergence from indices are constantly under review and subject to discussion between the Council, investment advisers and fund managers. Specialist managers have been appointed to maximise returns in each active asset class and outperformance targets reflect the risk/return requirements of both the Fund as a whole and the individual managers.

Principle 8
Performance Measurement

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees.

They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers

✓ 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.

Principle 9
Transparency

A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected;
- the fund's investment objective;
- the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;
- the mandates given to all advisers and managers; and
- the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

✓ Full compliance – the current SIP, read in conjunction with the Funding Strategy Statement, describes the arrangements that were put in place when new managers were appointed in 2004 and 2007. Further details are included in the Fund's annual report and at the Pension Fund AGM.

Principle 10
Regular Reporting

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers.

They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.

✓ Full compliance – pensions newsletters are sent to fund members. The SIP is published on Surrey CC's website and in the annual report, which is sent to employers and available to other stakeholders on request. The County Council's Audit and Governance Committee receives reports on the activities of the Investment Advisers Group. These reports are also available on the County Council website.

Funding Strategy Statement 2008-2011

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 first published in March 2005 following receipt of the 2004 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 2007 actuarial valuation process, which was concluded on 31 March 2008.
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 2011.
4. The FSS forms part of a framework which includes:
   a. the LGPS Regulations (Regulation 76A 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 employer contribution rates.

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.
8. 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
9. 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.

10. 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.

11. The total value of the Pension Fund, as at 31 March 2007, was £1.75bn and in 2006/2007 employer contributions into the pension fund amounted to £83.5m. Employee contributions amounted to £25.3m. Up to date statistical information can be found within the Fund's annual financial statements, which are published within an annual report.

12. 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.

13. The level of contributions into the fund to be paid by each employer is determined by the triennial actuarial valuation. The 2007 actuarial valuation has determined the level of contributions to be paid by employers during the period 1 April 2008 to 31 March 2011.

14. Officers of Surrey County Council received the preliminary results of the valuation in November 2007 and all employing bodies were invited to attend a meeting with the Fund actuary at the end of November. Results were circulated to all employers by the end of December 2007. 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 2008/2009.

15. 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

16. 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.

17. 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 1998 (As Amended).

Responsibilities of Key Parties

18. 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
19. 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.
20. 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

21. Surrey County Council, as administering authority, prudentially seeks to achieve full funding.

Contribution Rates

22. 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 employers share of the Fund deficit, liquidated over a specified number of years

Background and Historical Funding Levels

23. 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.

24. 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 pensions increases and other non-statutory benefits on a "pay as you go" basis. Pensions increases are the annual uprating of pensions in payment for cost of living.

25. Following the implementation of new regulations from 1 April 1990, the cost of inflation proofing both pensions 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.

26. Regulations issued by the then Department of the Environment in 1992 specified a return to the former target funding level of 100%. The consequence of the Regulation is that, 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 (an average of 13 years).

27. 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 Fund by around 8%.

28. 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.

29. The next actuarial valuation, as at 31 March 2004, saw the funding level reduce further to 68%. This was a result of poor investment performance relative to the 2001 valuation assumptions, although this was offset to some degree due to the higher contributions being made towards the deficiency.

30. 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 **Future Service Rate** – reduced from an average of 22.1% of payroll to 11.6% of payroll by:

- Allowing for the proposed abolition of the 'rule of 85'.
- Allowing for the Fund's investment strategy and expected future returns on investments. The Fund's 2000 asset allocation strategy resulted in a decision to invest 75% of the Fund in equities and 25% in fixed interest stocks and property. This benchmark was implemented in November 2000.
- Taking credit for the additional return that the Fund was expected to generate due to being more heavily invested in equities. To ensure prudence it was assumed that this return will be 1.6% p.a. more than that which would be achieved if the Fund was invested solely in government bonds.

Lump Sum Rate - reduced the average contribution toward the fund deficit by 7.7% of payroll to 8.9% of payroll by:

- Increasing the average length of time over which the Fund deficit would be recovered from 13 to 20 years, reflecting the increase in the remaining working life-time of active members.
- In addition, some scheduled bodies chose to step the increase in lump sum contributions, having been advised by the administering authority that to do so would mean that they would make smaller inroads into the overall deficit, which would impact on the 2007 actuarial valuation.

The 2007 Actuarial Valuation

31. During summer 2007 Surrey County Council had preliminary discussions with Hymans Robertson LLP, to establish ways of responding to the likely outcome of the 2007 actuarial valuation. Early indications were that the whole fund funding level would increase, leading to an reduction in lump sum payments into the Fund. However, ongoing contribution rates were expected to increase significantly, given the changes in the regulations governing the application of the LGPS, effective from 1 April 2008, the allowance for improvements in longevity and increase in expected future salary and price inflation.

New look LGPS

32. The main elements of the new scheme are as follows:
    - 1/60th accrual rate, with lump sums received via commutation at a rate of £12 received for every £1 of pension commuted, up to a maximum of 25% of the capital value of the benefits
    - 1/160th partners' pension
    - Two-tier ill-health (with ongoing consultation to bring in a third tier)
    - The lump sum death in service payment will be increased from 2-3 years' pensionable pay
    - The death grant applicable to death after retirement has increased from 5 times to 10 times the annual pension in payment less any pension payments already received in retirement. This applies to post 1988 service for current active members of the Fund
    - Cost sharing formula of future cost pressures – still under consultation but arrangements are expected to be in place by 31st March 2009
    - Banded contribution rates (to be increased each April in line with increases in the Retail Price Index) as follows:

FTE Pay Range	Contribution Rate
£0 - £12,600	5.5%
£12,600.01 - £14,700	5.8%
£14,700.01 - £18,900	5.9%
£18,900.01 - £31,500	6.5%
£31,500.01 - £42,000	6.8%
£42,000.01 - £78,700	7.2%
£78,700.01+	7.5%

The Fund Actuary has estimated that the average employee contribution rate across all employers in the Surrey Pension Fund will be 6.6%

Longevity

33. In addition to the financial assumptions discussed in paragraph 36 onwards the main assumption to which the valuation results are most sensitive is that relating to future longevity.

34. The mortality tables used for the 2007 valuation take account of recent mortality experience in the Fund and give some protection against future improvements in mortality in the period to 2033 – the life expectancy at age 65 of an individual who was aged 45 at the valuation date is assumed to have a longer life expectancy than a pensioner who had attained the age of 65 at the valuation date. The life expectancy is assumed to be longer than that assumed in 2004. In 2004 it was assumed that life expectancy at age 65 was the same, irrespective of the age of the individual at the date of the valuation. Hymans Robertson LLP are expected to use updated mortality tables to inform the 2010 valuation process to ensure that further expected improvements in life expectancy are taken into account.

35. The following table shows the life expectancies assumed for the actuarial valuation process:

	Assumptions to assess funding position at 31 March 2004		Assumptions to assess funding position and 'gilt based' position at 31 March 2007	
Male/Female	M	F	M	F
Average future life expectancy (in years) for a pensioner aged 65 at the valuation date	20.2	23.2	21.5	24.4
Average future life expectancy (in years) at age 65 for a non-pensioner aged 45 at the valuation date	20.2	23.2	22.6	25.5
Average future life expectancy (in years) at age 45 for a non-pensioner aged 45 at the valuation date	39.2	42.2	42.1	45.0

Impact of Applying Different Discount Rates

36. Given that a number of mitigating factors were employed during the 2004 valuation process (Para. 30) and the ongoing concern about applying prudence to the decision-making process, it was agreed that there was little scope to introduce new measures to reduce the impact of the expected net increase in contribution rates. However, the impact of applying different valuation assumptions in relation to expected investment returns would be examined closely in relation to affordability, as would applying shorter deficit repayment periods. Employers were also encouraged to consider maintaining total contribution rates at the 2004 level if the 2007 results saw a reduction `in their total contribution rate.

37. Ultimately, it remains Surrey CC's intention to have as stable a long-term employer contribution rate as is possible.

38. In 2004 it was assumed that the Fund's investments would achieve a nominal return of 6.3% per annum. This return comprised the return expected by investing solely in government gilts (4.7% p.a.) adjusted by the additional return of 1.6% p.a. expected due to the policy of investing 75% of the Fund in equities (Equity Premium).

39. In reality, the Fund's average annual return over the inter-valuation period was 13.9%, or 7.1% p.a. greater than the assumption made in 2004 and giving a cumulative difference of 23% over the 3-year inter-valuation period. This served to improve the Fund's solvency level by just under 19% and was the factor with the biggest single positive impact on the solvency level.

40. For the 2007 valuation Hymans Robertson LLP generated a number of discount rates to calculate the value of the Fund's liabilities – the discount rates were determined by assuming different levels of asset outperformance relative to the minimum risk free return of 4.5% (1.3% real), which would be achieved if the Fund was invested solely in government gilts. The result of this analysis is shown in the following table:

	2004	Option 1	Option 2	Option 3	Option 4
Base Discount rate nominal	4.7%	4.5%	4.5%	**4.5%**	4.5%
Asset Outperformance Assumption	1.6%	0.0%	1.25%	**1.6%**	1.85%
Nominal Discount Rate	6.3%	4.5%	5.75%	**6.1%**	6.35%
Real Discount Rate	3.4%	1.3%	2.55%	**2.9%**	3.15%
Liabilities	£1,623m	£2,950m	£2,392m	**£2,219m**	£2,124m
Assets	£1,107m	£1,759m	£1,759m	**£1,759m**	£1,759m
Deficit	£516m	£1,191m	£633m	**£460m**	£365m
Funding Level	68%	60%	74%	**79%**	83%
Total Contribution rate (% of payroll)	20.5%	38.8%	25.5%	**20.9%**	18.3%

41. 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.

42. The other financial assumptions used during the 2007 valuation are as follows:

	2004 % p.a. Nominal	2004 % p.a. Real	2007 % p.a. Nominal	2007 % p.a. Real
Gilt yield (base discount rate*)	4.7%	1.8%	4.5%	1.3%
Asset Outperformance Assumption	1.6%		1.6%	
Discount Rate	6.3%		6.1%	
Pay increases	4.4%	1.5%	4.7%	1.5%
Pension Increase	2.9%		3.2%	
Price inflation	2.9%		3.2%	

43. Discussions were also held on changing the deficit recovery period. Again, a balance of prudence and affordability resulted in agreement to maintain the average repayment period at 20 years – based on the remaining working lifetime of members. However, some scheduled bodies have agreed to reduce the repayment period to 17 years, as shown in Annexe 1. The following table shows the maximum length of deficit recovery period for different groupings of employers:

	Maximum Length of Recovery Period
Statutory Bodies with tax raising powers	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

44. Unlike 2004, stepping of increases in contribution rates has not been applied – with all employers moving to the full contribution rate from 1 April 2008.

45. The valuation results for some employers has shown a funding level greater than 100%. Those employers have been advised to ‘bank’ the credits from having a surplus and will therefore pay the full future service rate from 1 April 2008.

The 2007 valuation results

46. The following table summarises the main results of the 2007 valuation together with comparative figures for the previous valuation:

	2004 Valuation	2007 Valuation
Active Members:		
Number of active members	22,100	25,358
Total Annual Pensionable Pay	£434.4m	£540.2m
Average Pensionable Pay	£19,656	£21,307
Deferred Pensions:		
Number of Deferred Pensioners	14,656	20,737
Total annual value of deferred pensions payable in future	£20.9m	£25.2m
Pensioners and Widow(er)s:		
Number of pensioners	14,293	15,896
Total annual pensions payable	£53.3m	£62.6m
Average pension in payment	£3,729	£3,937
Value of Liabilities	£1,623.0m	£2,218.8m
Market Value of the Fund	£1,107.4m	£1,759.3m
Deficit	£515.6m	£459.6m
Solvency Level of the Fund*	68.2%	79.3%
Employer Average Contribution Rate		
Future Service	11.6%	14.7%
Past Service Deficit	8.9%	6.2%
Total Employer Rate	20.5%	20.9%

47. Following discussions with the Fund actuary, the following measures were therefore adopted during the 2007 actuarial valuation process to mitigate the impact of the net increase in contribution rates:
   - Apply asset outperformance assumption of 1.6% p.a.
   - Retain 20 year deficit recovery period
   - No stepping of increases in contribution rates

48. The resultant employer contribution rates applicable from April 1 2008 are shown at Annexe 1, 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.

49. 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.

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

50. 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.

51. 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 and in the annual report.

52. 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 last ALM study took place in 2006 and the resultant changes in the Fund's customised benchmark were implemented in December 2007. The next ALM study will take place in 2009.

The Identification of Risks and Counter-Measures.

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

Financial Risks	Counter Measures
Investment markets fail to perform in line with expectations	Do not over-estimate the equity risk premium adopted for the actuarial valuation
Market yields move at variance with assumptions	Apply sensitivity analysis to determine, in advance, the likely financial impact of a 1% deviance from expectations
Investment managers fail to achieve performance targets over the longer term	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.
Asset reallocations in volatile markets may lock in past losses	The Fund's passive (index-tracking) manager rebalances the fund's asset allocation on a monthly basis.
Pay and price inflation is significantly more or less than anticipated	Apply sensitivity analysis to determine, in advance, the likely financial impact of a 0.5% deviance from expectations
The effect of a possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies	Apply different deficit recovery periods to reflect the financial standing and covenant of employers

Demographic Risks	Counter Measures
The longevity horizon continues to expand	Hymans Robertson LLP is using long-term longevity projections (30 years) in the 2007 actuarial valuation
Deteriorating pattern of early retirements	The cost of early retirements is recovered from employers as and when they occur
The impact of government policy (e.g. The Gershon review) on the employer workforce	Hymans Robertson LLP will make prudent assumptions about the future local government workforce, under the guidance of the administering authority.

Regulatory Risks	Counter Measures
Changes to LGPS regulations	During the actuarial valuation Hymans Robertson LLP will take into account the impact on benefits of the Local Government Pension Scheme Regulations 2007 (as amended)
Changes to national pensions requirements and/or Inland Revenue rules	Not applicable at present but to be kept under review.

Governance	Counter Measures
Administering authority unaware of structural changes in an employer's membership	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 County Council carries out in depth movement analysis on an annual basis.
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
An employer ceasing to exist with insufficient funding or adequacy of a bond	Admitted body contribution rates are set at a level that is intended to reflect 100% funding. The terms of a bond provide for regular review of the adequacy of a bond.

Consultation and Publication

54. This is the second Funding Strategy Statement and updates the Funding Strategy Statement that was published following the 2004 actuarial valuation and reflects discussions between the administering authority, Hymans Robertson LLP and scheme employers during the 2007 actuarial valuation process.

55. 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 and during the 2007 actuarial valuation process. A special meeting to discuss the valuation assumptions was held on 28th November 2007 and all employers were invited to this meeting. Officers of the administering authority also attended meetings of the larger employer stakeholder group in late 2007.

56. Results were circulated to all employers by the end of December 2007. 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 2008/2009.

57. 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.

58. A revised Funding Strategy Statement will be consulted on ahead of the 2010 actuarial valuation.

Statement of MINIMUM contributions to be paid by participating employers					
		Percentage of payroll due	Additional Monetary Amount		
	Deficit Recovery Period	1 April 2008 to 31 March 2011	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011
Large Scheduled bodies	Yrs		£000	£000	£000
Surrey County Council	20	14.8%	15,323	16,043	16,797
Surrey Police Authority	20	12.0%	936	980	1,026
Surrey Probation Committee	20	13.6%	190	199	208
Elmbridge Borough Council****	17	14.5%	690	722	756
Epsom & Ewell Borough Council	20	15.5%	381	399	418
Guildford Borough Council	20	14.6%	1,353	1,417	1,483
Mole Valley District Council	20	15.5%	527	552	578
Reigate & Banstead B.C.	20	15.2%	1,065	1,115	1,167
Runnymede B.C. ****	17	16.3%	380	398	417
Spelthorne Borough Council	20	15.8%	436	456	478
Surrey Heath Borough Council	20	15.7%	348	364	381
Tandridge District Council	20	16.5%	849	889	931
Waverley Borough Council****	17	16.5%	920	963	1,009
Woking Borough Council	20	15.0%	1,241	1,299	1,360

Statement of MINIMUM contributions to be paid by participating employers					
		Percentage of payroll due	Additional Monetary Amount		
	Deficit Recovery Period	1 April 2008 to 31 March 2011	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011
Small Scheduled bodies	Yrs		£000	£000	£000
Ash Parish Council	12	18.8%	4,745	4,968	5,202
Bramley Parish Council	12	18.8%	134	140	147
Claygate Parish Council	13	15.7%	109	114	119
Cranleigh Parish Council	12	18.8%	3,221	3,372	3,531
East Horsley Parish Council	13	15.7%	97	102	106
Epsom & Walton Downs Conservators	12	18.8%	5,953	6,233	6,526
Farnham Town Council	12	18.8%	4,031	4,220	4,419
Frensham Parish Council	13	15.7%	143	150	157
Godalming Town Council	12	18.8%	4,895	5,125	5,366
Godstone Parish Council	13	15.7%	57	60	62
Haslemere Town Council	13	15.7%	396	415	434
Horley Town Council	12	18.8%	2,742	2,871	3,006
Merton & Sutton JCB	12	18.8%	4,963	5,196	5,440
Nonsuch Park JMC	12	18.8%	5,604	5,867	6,143
Shere Parish Council	12	18.8%	1,140	1,194	1,250
Tongham Parish Council	12	18.8%	156	163	171
Valuation Tribunal Service	20	11.7%	3,000	3,141	3,289
Warlingham Parish Council	13	15.7%	36	38	39
West End Parish Council	13	15.7%	77	81	84
Windlesham Parish Council	12	18.8%	1,564	1,638	1,714
Witley Parish Council	12	18.8%	813	851	891
Worplesdon Parish Council	13	15.7%	302	316	331

Statement of MINIMUM contributions to be paid by participating employers		
Colleges	Deficit Recovery Period Yrs	Percentage of Payroll due 1 April 2008 to 31 March 2011
Brooklands College	20	18.9%
East Surrey College	20	15.9%
Esher College	20	15.9%
Godalming College	20	15.9%
Guildford College of Technology	20	19.7%
NESCOT	20	18.6%
Reigate College	20	15.9%
Strodes College	20	15.9%
University College of Creative Arts	20	15.8%
Woking College	20	15.9%

Statement of MINIMUM contributions to be paid by participating employers continued		
Admitted Bodies	Deficit Recovery Period Yrs	Percentage of Payroll due 1 April 2008 to 31 March 2011
A2 Housing Group Ltd	9	43.4%
Ability Housing Association***	n/a	17.9%
Accent Peerless Housing Group	12	27.6%
Carillion	11	21.9%
Childhood First	7	114.4%
Commission for Social Care and Inspection	10	19.9%
East Surrey Rural Partnership	n/a	16.9%
Elmbridge Housing Trust**	13	17.5%
George Burley & Sons*	2	17.0%
Hanover Housing Association	13	22.9%
Mole Valley Housing Association***	n/a	19.4%
Moor House School	19	15.4%
Princess Alice Hospice Trust	13	22.6%
Raven Housing	11	16.6%
Reigate Grammar School	13	22.6%
Ringway *	4	17.5%
Rosebery Housing Association	13	22.6%
Royal Grammar School, Guildford	13	22.6%
SERCO	20	15.0%
Sir William Perkins's School	13	22.6%
Surrey Alcohol and Drug Advisory Service	20	13.8%
Surrey Association for Visual Impairment	13	22.6%
SWT Countryside Services Ltd	14	16.9%
University of Surrey	20	19.3%
VT 4S Ltd	15	16.4%
Waverley Hoppa Transport	6	15.4%
Woking Community Transport	13	22.6%

*Advised to pay full future service rate

**Advised (& agreed) to pay future service rate as minimum

*** New admitted body not covered in the valuation

****Requested reduced deficit recovery period

Governance Compliance Statement 2008-2009

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 County Council'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 Personnel & Appointments 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)	3 Members of the Investment Advisers Group are also members of Audit & Governance Committee. An additional IAG Member is also a member of Surrey CC's Executive.

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 superfluous.			
b)			
Comments on ratings given above a)			
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 eithera 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)

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			✓
Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations			
a) The terms of reference for members of the Investment Advisers Group include a statement of training requirements. However, a formal timetable for training is not currently in place. There is currently no clear policy on reimbursement of expenses.			
b) n/a			
Comments on ratings given above			
a)			
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			✓
Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations a) n/a			
b) n/a			
c) n/a			
Comments on ratings given above a)			
b) Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisers Group, which meets quarterly			
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			✓

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

a) n/a

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.			✓
Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations a) n/a			
Comments on ratings given above a) Wider scheme issues are considered either by the Investment Advisers Group, Audit & Governance Committee or Personnel & Appointments 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			✓
Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations a) n/a			
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 within the Pension Fund annual report. This 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 2009

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of Surrey Pension Fund ("the Fund") was carried out as at 31 March 2007.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 22 March 2005 for the year ending 31 March 2008. Thereafter, for the three years commencing 1 April 2008, as specified in our Rates and Adjustments certificate dated 27 March 2008.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated 27 March 2008. The valuation was carried out in accordance with the Funding Strategy Statement.

Copies of these documents are available on request from Surrey County Council, administering authority to the Fund. My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Since I have taken assets into account at their market value, it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities. This ensures the compatibility of the asset and liability valuation bases.

The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	March 2007	
	% p.a.	% p.a.
	Nominal	Real
Discount Rate Pay Increases Price Inflation / Pension Increases	6.1% 4.7% 3.2%	2.8% 1.5% -

The 2007 valuation revealed that the Fund's assets had a market value at 31 March 2007 of £1,759 million. These assets were sufficient to meet approximately 79% of the liabilities accrued up to that date. Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 20 years.

Experience since April 2007

Market conditions since the previous formal valuation have been extremely volatile and the valuation position would have worsened over the period to 31 March 2009. My opinion on the security of prospective rights above is dependent upon any increased contributions required being met by employers, although this statement should be read in context of the statutory nature of the Fund.

Accordingly, this is likely to cause upward pressure on the level of employer contributions if a valuation were carried out at a current date.

The employer contribution rates and Funding Strategy Statement will be reviewed at the next valuation of the Fund, which will be carried out as at 31 March 2010.

Bryan T Chalmers

Bryan T Chalmers FFA
2 June 2009
For and on behalf of Hymans Robertson

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 Head of Finance.
- 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 Head of Finance

The Head of Finance, 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 Head of Finance 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 Head of Finance 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

I have audited the pension fund accounts for the year ended 31 March 2009. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective Responsibilities of the Responsible Financial Officer and Auditor

The Responsible Financial Officer is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing these pension fund accounts, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the Statement of Accounts.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of Audit Opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion:

- the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounts.

Paul Grady
District Auditor

Officer of the Audit Commission
1st Floor, MLS Business Centre
Crossweys
28-30 High Street
Guildford
Surrey
GU1 3HY

Date: 30th September 2009

Accounting Policies

Accounting Standards

The accounts have been prepared to meet the requirements of the Local Government Pension Scheme Regulations 1997 and in accordance with the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised 2007).

Actuarial Position

The accounts summarise the transactions of the Scheme and deal with the net assets. They do not take account of liabilities to pay pensions and other benefits in the future. They should therefore be read in conjunction with the actuarial position on page 66, which takes such liabilities into account.

Contributions, Benefits and Transfer Values

- Contributions and benefits are included on an accruals basis.
- Transfer values are accounted for on a cash basis apart from bulk transfers, which are accrued at year end. No allowance is made for further 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.
- 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. Employer related costs are excluded.
- 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 for the Year ended 31 March 2009

	Note	2008 £000	2009 £000
Contributions and Benefits			
Contributions receivable	1	120,018	134,312
Transfers in	3	13,731	11,686
		133,749	145,998
Benefits payable	2	-82,253	-88,400
Leavers	4	-10,686	-4,427
Administrative expenses	5	-1,725	-1,657
		-94,664	-94,484
Net additions from dealings with members		39,085	51,514
Returns on Investments			
Investment income	7	36,763	40,943
Change in market value of investments		-110,227	-456,126
Investment management expenses	6	-4,485	-4,723
Net returns on investments		-77,949	-419,906
Net increase (decrease) in the Fund during the year		-38,864	-368,392
Net Assets of the Fund			
At 1 April		1,753,629	1,714,765
At 31 March		1,714,765	1,346,373

Statement of Net Assets as at 31 March 2009

	Note	2008 £000	2009 £000
Investment Assets	16		
Fixed Interest Securities		290,928	**195,983**
Index Linked Securities		43,873	**47,729**
Equities		1,195,443	**901,981**
Property Unit Trusts		114,012	**73,321**
Private Equity		32,729	**36,621**
Derivatives – Foreign Exchange Forward Contracts	17	1,367	**8,168**
Cash		43,341	**86,804**
Investment Liabilities			
Derivatives – Foreign Exchange Forward Contracts	17	-8,142	**-12,016**
Net Investment Assets		1,713,551	**1,338,591**
Current Assets	8	24,352	**15,812**
Current Liabilities	9	-23,138	**-8,030**
Net Assets of the Fund at 31 March		1,714,765	**1,346,373**

I certify that the Statement of Accounts presents fairly the financial position of the Pension Fund at 31 March 2009 and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after that date.

Philip Walker
Head of Finance
22 June 2009

Notes to the Statement of Accounts

1 Contributions Receivable	2007/2008 £000	**2008/2009 £000**
Employees' basic		
Administering Authority	13,265	**15,668**
Scheduled Bodies	11,433	**13,068**
Admitted Bodies	2,002	**2,172**
Employees' additional		
Administering Authority	504	**512**
Scheduled Bodies	171	**215**
Admitted Bodies	48	**76**
Employers' basic		
Administering Authority	25,590	**36,041**
Scheduled Bodies	23,043	**29,020**
Admitted Bodies	6,147	**6,710**
Employers' deficit funding		
Administering Authority	19,357	**15,340**
Scheduled Bodies	12,248	**9,236**
Admitted Bodies	0	**0**
Employers' augmentation		
Administering Authority	0	**0**
Scheduled Bodies	625	**996**
Admitted Bodies	0	**0**
Employers' other		
Administering Authority	2,786	**2,623**
Scheduled Bodies	2,190	**2,000**
Admitted Bodies	609	**635**
	120,018	**134,312**

2 Benefits Payable	2007/2008 £000	2008/2009 £000
Retired employees pensions		
Administering Authority	29,041	30,989
Other Scheduled and Admitted Bodies	30,204	33,001
Lump sums		
Administering Authority	6,662	6,362
Other Scheduled and Admitted Bodies	8,332	9,517
Death grants		
Administering Authority	716	1,010
Other Scheduled and Admitted Bodies	909	775
Widows' pensions		
Administering Authority	2,604	2,715
Other Scheduled and Admitted Bodies	3,530	3,783
Children's pensions		
Administering Authority	84	82
Other Scheduled and Admitted Bodies	62	64
Total*	82,144	88,298

*Note the total does not include interest on late payment of benefits £102,418 (£108,806)

3 Transfers In	2007/2008 £000	2008/2009 £000
Group transfers in from other schemes	0	275
Individual transfers in from other schemes	13,731	11,411
	13,731	11,686

4 Leavers	2007/2008 £000	2008/2009 £000
Group transfers to other schemes	2,222	255
Individual transfers to other schemes	8,437	4,144
Refund of contributions	29	27
State scheme premiums	-2	1
	10,686	4,427

5 Administrative Expenses	2007/2008 £000	2008/2009 £000
Administration and Processing	1,613	1,493
Actuarial Fees	92	79
Audit Fee	0	70
Legal and other Professional Fees	20	15
	1,725	1,657

6 Investment Management Expenses	2007/2008 £000	2008/2009 £000
Administration, Management and Custody	4,320	4,650
Performance Measurement Services	4	5
Other Advisory Fees	161	68
	4,485	4,723

7 Investment Income	2007/2008 £000	2008/2009 £000
Fixed Interest		
UK	6,879	6,881
Overseas	3,550	4,664
Index Linked		
UK	489	534
Overseas	52	67
Equities		
UK	14,634	14,288
Overseas	4,262	7,363
Property Unit Trusts	4,567	4,276
Private Equity	0	0
Cash	2,330	2,862
Underwriting Commission	0	8
	36,763	40,943

8 Current Assests	2007/2008 £000	2008/2009 £000
Income in respect of investments		
- outstanding sales	10,949	4,595
- investment income	8,009	6,750
- fund manager expenses	212	0
Contributions due from employer in respect of		
- Members	708	860
- Employers	2,482	2,939
Benefits (including transfer values)	1,367	668
SCC	625	0
	24,352	15,812

9 Current Liabilities	2007/2008 £000	**2008/2009 £000**
Expenditure in respect of investments - outstanding purchases - investment expenses	 21,163 1,316	 5,407 1,045
Benefits (including transfer values)	47	416
HMRC	612	1,162
	23,138	8,030

10 Unlisted Securities
The value of unlisted securities in the Fund at 31 March 2009 is £36,620,691 (31 March 2008 is £32,728,939).

11 Outstanding Commitments
At 31 March 2009 the Fund held part paid investments on which the liability for future calls amounted to £53,878,252 (£44,491,480 at 31 March 2008). The Fund had no sub-underwriting commitments as at 31 March 2009.

12 Additional Voluntary Contribution (AVC's)
AVC's are paid 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 2009 is £1,580,108,548 (£1,608,250,281 at 31 March 2008)

14 Custody
The Northern Trust Company, the Fund's global custodian, provides custody arrangements for securities and cash balances. Custodian arrangements for the managers responsible for private equity are as follows:

Blackrock - Mellon Bank
ISIS Equity Partners - RBS Trust Bank
Goldman Sachs - Investors Bank & Trust Company
HG Capital - Bank of New York
Standard Life Capital Partners - Banques Paribus

15 Related Party Transactions

i) Employer pension contributions paid by Surrey County Council in 2008/2009 amounted to £54,004,204 (£47,732,447 in 2007/2008):

	2007/2008 £	**2008/2009** **£**
Employers' future service contributions	25,589,559	36,041,158
Annual monetary amount	19,357,311	15,340,468
Early retirement liabilities	2,785,577	2,622,578
Total	**47,732,447**	**54,004,204**

ii) Net amounts owed by Surrey County Council to the Fund as at 31 March 2009 were £61,596,030 (£12,033,684 at 31 March 2008).

iii) Interest in the sum of £952,602 was allocated to Pension Fund balances in 2008/09 (£1,040,760 in 2007/08).

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 08 £000	Purchases at Cost & £000	Sale Proceeds & Derivative Derivative £000	Market Movements Receipts Payments £000	**Value at 31 March 09 £000**
Fixed Interest Securities	290,928	205,242	-272,295	-27,892	**195,983**
Index Linked Securities	43,873	23,814	-18,775	-1,183	**47,729**
Equities	1,195,443	421,129	-401,612	-312,979	**901,981**
Property Unit Trusts	114,012	9,586	-6,584	-43,693	**73,321**
Private Equity	32,729	8,505	-4,613	0	**36,621**
Derivatives – FX Contracts	-6,775	75,939	-2,623	-70,389	**-3,848**
	1,670,210	744,215	-706,502	-456,136	**1,251,787**
Cash Deposits	43,341			10	**86,804**
	1,713,551			-456,126	**1,338,591**

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 £1.54m (£1.77m in 2007-08). In addition to the transaction costs disclosed above, indirect costs are incurred through bid-offer spreads on investment within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

Derivative receipts and payments represent the realised gains and losses on forward foreign exchange contracts. The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

	31 March 2008 £000	31 March 2009 £000
16.1 Fixed Interest Securities		
UK public sector & quoted	121,488	103,070
UK unit trusts	86,454	28,651
Overseas public sector & quoted	82,986	64,262
Overseas unit trusts	0	0
	290,928	195,983
16.2 Index Linked Securities		
UK public sector & quoted	23,136	28,331
UK unit trusts	19,496	11,488
Overseas public sector	1,241	7,910
	43,873	47,729
16.3 Equities		
UK quoted	358,246	268,231
UK unit trusts	231,283	173,450
Overseas quoted	310,647	253,120
Overseas unit trusts	295,267	207,180
	1,195,443	901,981
16.4 UK Property Unit Trusts	114,012	73,321
16.5 Private Equity		
UK unquoted	7,349	5,622
UK unit trusts	25,380	30,999
	32,729	36,621
16.6 Derivatives		
Foreign Exchange Forward Contracts	-6,775	-3,848
16.7 Cash		
Sterling deposits	53,493	87,717
Amounts owed to brokers	-10,152	-913
	43,341	86,804
Total Investments	1,713,551	1,338,591

17 Derivatives – Foreign Exchange Forward 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.

The Fund has a policy to hedge up to 50% of the exposure to US Dollar, Yen and the Euro. This hedge is managed by LGIM. Individual Fund Managers may also use derivatives if permitted by their Investment Management Agreements.

At 31 March 2009 the Fund had forward currency contracts in place with a net unrealised loss of £3,848,195 (-£6,775,445 at 31 March 2008).

Currency		2007/08				2008/09			
		Notional Amount (Local currency)		Asset	Liability	Notional Amount (Local currency)		Asset	Liability
Bought	Sold	Bought('000)	Sold('000)	£'000	£'000	Bought('000)	Sold('000)	£'000	£'000
AUD	CHF					6,243	-4,966	318	-342
CHF	AUD					4,590	-6,243	447	-653
CHF	GBP					11,397	-6,220	777	
EUR	GBP	5,592	-4,171	293		6,916	-6,280	126	
GBP	CHF	161	-319		-1	6,220	-10,837		-434
GBP	EUR	88,365	-116,047		-4,292	122,617	-139,517		-6,600
GBP	JPY	53,423	-11,145,905		-3,234	81,365	-10,675,646	5,921	
GBP	MYR					17	-90	0	
GBP	NOK	2,334	-25,300		-170				
GBP	PLN	1,182	-5,754		-122	1,430	-6,825	80	
GBP	SEK	3,949	-50,019		-298	5,416	-62,478	144	
GBP	USD	145,799	-287,634	630		228,446	-332,008		-3,162
GBP	ZAR	338	-5,462						
JPY	AUD					127,909	-2,288		-197
JPY	GBP	913,932	-4,454	188		1,001,258	-7,548		-473
NOK	GBP					9,590	-996		-9
PLN	GBP					4,002	-745	47	
SEK	GBP	35,024	-2,774	200		62,478	-5,417		-146
SGD	GBP	48	-18						
SGD	USD	5,860	-4,161	56					
USD	GBP	18,130	-9,171		-25	20,268	-13,830	308	
ZAR	GBP					366	-27		
		Unrealised Gain/Loss		1,367	-8,142	Unrealised Gain/Loss		8,168	-12,016

All of the above contracts settle in less than one year.

18 Post Balance Sheet Events

There have been no material post balance sheet events.

19 Prior Year Adjustments

Following the audit of the Pension Fund Accounts prior year adjustments were required to amend the cash balance, current asset and current liability figures reported on the 2007/08 Net Asset Statement. The cash balance has increased by £1.039m whilst the net current assets have reduced by £9.763m.

This is reflected in amendments to the figures reported in the 2007/08 Fund Account through a reduction in the change in market value of investments (£8.553m) and an increase in the benefits payable (£0.171m) figure.

The prior year adjustments reduced the Net Assets of the Fund at 31 March 2008 by £8.7m to £1,714.8m from the reported figure of £1,723.5m.

The Fund's Largest Shareholdings

	Market Value at 31/03/2009 £m
Top 10 United Kingdom Equities	
BP PLC	28.8
Vodafone Group	25.3
Royal Dutch Shell	22.1
GlaxoSmithKline	21.4
HSBC	8.1
Unilever	7.7
Astrazeneca	7.4
BG Group	6.1
Prudential	5.6
Xstrata PLC	4.3
	136.8
Top 10 Overseas Equities	
Jardine Matheson	3.8
Roche Holdings	3.1
Sprint Nextel	3.0
Costco Wholesale Group	2.4
Wyeth	2.3
Novartis	2.2
KDDI	2.1
Total	2.1
Japan Tobacco	2.0
Cisco Systems	2.0
	25.0
Top 5 Unit Trusts	
Legal & General UK Equity	163.5
Legal & General North America Equity	51.5
Legal & General Europe (Ex-UK) Equity	46.7
Legg Mason Emerging Markets	44.9
Marathon Global Fund	25.4
	332.0
	493.8

These holdings make up 37% 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 County Council's website: www.surreycc.gov.uk

Pension Scheme Regulations

1997 Regulations S.I. 1997/1612
Copies may be obtained from:
The Stationery Office Ltd
2nd Floor, St Crispins
Duke Street
Norwich
NR3 1PD

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

Useful Addresses

Occupational Pensions Board

PO Box 1NN
Newcastle upon Tyne
NE99 1NN

Tel. 0191 225 6316

The Pensions Advisory Service (TPAS)

11 Belgrave Road
London
SW1V 1RB

Tel: 0845 601 2923
e-mail: enquiries@pensionsadvisoryservice.org.uk

Pensions Ombudsman

11 Belgrave Road
London
SW1V 1RB

Tel. 0207 630 2200
e-mail: 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

Accruals Based Accounting

The most commonly used accounting method, which reports income when earned and expenses when incurred, as opposed to cash basis accounting, which reports income when received and expenses when paid.

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.

Annualised Return

The rate of return for any given period expressed as the equivalent average return per annum.

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.

Attribution

Used to explain the differences between a portfolio's return and a benchmark return. Two main factors contribute to this difference: asset allocation strategy and stock selection.

Balanced Management

The fund manager invests in a range of asset classes, as defined by a fund's benchmark.

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.

Ex-post

A term that refers to past events or actual returns. Often used in relation to tracking error.

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.

Unquoted Security

A share which is dealt in the market but which is not subject to any listing requirements and is given no official status.

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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