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SURREY
COUNTY COUNCIL

Making Surrey a better place

Surrey Pension Fund

Annual Report 2005

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.

Review of Fund Performance

During 2004-2005 the average local authority fund generated a return of 11.3%, reflecting an ongoing stock market recovery that began in earnest in 2003-2004. The Surrey Fund returned 11.6%, which means that for the fourth year out of five the Surrey Fund performance was above average. We are particularly pleased with the 2004-2005 result since the return includes the costs involved in transition to the new investment structure.

New Fund Management Structure

A major review of the fund's management arrangements was carried out in 2003-2004. Historically the Fund used balanced multi-asset managers, i.e. managers that could invest in all types of stocks, equities and bonds but were not specialists in any one particular asset class.

Having considered all options, the Investment Advisers agreed to implement a core-satellite structure. This structure splits investments into three types, each with a different level of risk and target return profile. The passive core consists of a range of asset classes where the investment objective is to track a relevant index and produce a return that is very close to the index return. The active or specialist core consists of a range of asset classes where the investment objective is to beat the index by up to 2% per annum. The active core consists of specialist managers in the key asset classes of UK equities, Global Equities, Bonds and Property. There are also a number of satellite managers specialising in specific equity regions with a higher investment target and, by implication, a higher level of risk.

Having chosen twelve fund managers in 2003-2004 the next step was to put the new managers in place. This process began in April 2004 and was completed in October 2004. To simplify matters, Legal and General Investment Management was tasked with affecting the transition to the new structure. Given the size of the Fund, this involved many transactions but many stocks passed between the old and new managers. Due to an efficient transition the costs incurred were 50% less than had been expected prior to the start of the process. The new managers are listed on Page 4.

It is still too soon to say whether the individual manager appointments have been successful since we take a longer-term view of investments. However, an above average total fund investment return in a period of major restructuring is extremely pleasing.

Results of the 2004 Actuarial Valuation

The other major issue during 2004-2005 was the 2004 actuarial valuation. We expected that the results would be disappointing because stock market returns between 2001 and 2004 were less than were expected in 2001, so we were prepared for a reduction in the Fund's solvency level. This turned out to be a reduction from 75% to 68% funding. We were pleased, however, that the relative fall in the Surrey Fund solvency was far less than the average fall of all local authority funds.

We also knew that contributions would have to increase because life expectancy continues to increase. We were therefore prepared for an overall increase in contribution rates – both to cover the Fund deficit and the increase in future service contribution rates.

We were able to mitigate the impact of the increase in contribution rates in two major ways – firstly we increased the period over which the

deficit is recovered to reflect the increase in life expectancy. Secondly, we took credit for the expected abolition of the 'rule of 85' which meant that members would no longer have the right to retire on a full pension at the age of 60 if they had completed 25 years' service. In line with statutory requirements we have produced a Funding Strategy Statement (FSS), which describes the decisions made during the actuarial valuation process. The FSS can be found on page 37 of this report.

Following trades union pressure and subsequent to the valuation results being published and implemented, ODPM withdrew the regulations that abolished the 'rule of 85' and reopened consultation on the future of the Local Government Pension Scheme. We remain uncertain whether the additional costs associated with the revocation of the abolition of the 'rule of 85' will be offset by savings made due to other changes to the scheme. Consultation on this matter is ongoing but the results should be known before 2006-2007 budgets are set.

The Year Ahead

Looking forward we have a number of major challenges. As outlined above we continue to have a large number of managers to work with and monitor. We will also be reviewing the Fund's asset allocation to ensure that it is still appropriate. Finally, there will be implementation of the outcome of the current ODPM review of the LGPS.

Michael Taylor
Executive Director, Resources
(October 2005)

Members and advisers

Administering Authority	Surrey County Council County Hall Kingston upon Thames Surrey KT1 2EA
Administrator	Executive Director, Resources
Investment Advisers	
County Council Members	Dr B J Coffin Mr Peter Langham Mr David Rousell Chris Slyfield
Representatives of Employing Bodies	Cllr Tony Moore, Mole Valley DC (to September 2004) Cllr Nick Harrison, Reigate & Banstead BC (from September 2004) Cllr Roger Whittaker, Elmbridge BC
Employee Representative	Don Josey
Professional Investment Adviser	Debbie Clarke, Watson Wyatt Paul Meredith, Independent
Executive Director, Resources	Michael Taylor
Fund Managers	Citigroup Asset Management ING Real Estate JP Morgan Asset Management Legal and General Investment Management Majedie Asset Management Marathon Asset Management Mirabaud Investment Management Ltd Schroder Investment Management Ltd SG Asset Management TCW Investment Management Company UBS Global Asset Management Western Asset Management

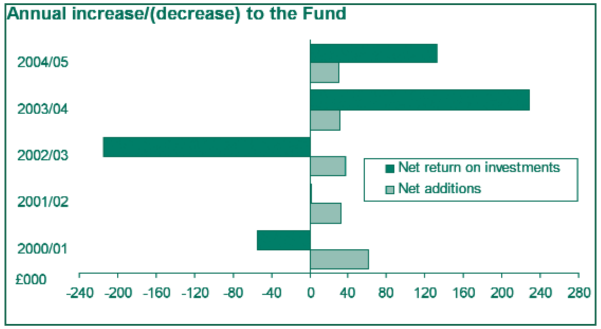
Global Custodian	Northern Trust
Development Capital Advisers	Goldman Sachs & Co HG Capital ISIS Capital Merrill Lynch Investment Managers Standard Life
Fund Actuary	Ronald S. Bowie, Senior Partner, Hymans Robertson
AVC Provider	Prudential Assurance Company Equitable Life Assurance Society
Auditors	Audit Commission

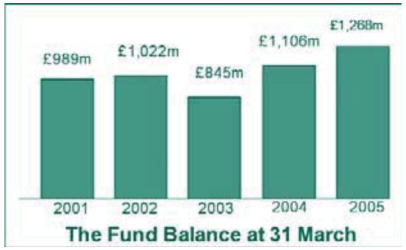
Five year profile

Financial Summary

	2000/01 £000	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000
Contributions	*122,186	96,704	105,242	102,357	107,106
Less Benefits and Expenses Paid	61,621	63,634	67,770	70,701	77,272
Net additions	60,565	33,070	37,472	31,656	29,834
Net Investment Income	24,896	25,321	25,576	26,682	24,516
Change in Market Value	(79,777)	(25,270)	(240,153)	202,320	107,797
Net return on investments	(54,881)	51	(214,577)	229,002	132,313
Net increase/(decrease) in Fund	5,684	33,121	(177,105)	260,658	162,147
Fund Balance at 31 March	988,881	1,022,002	844,897	1,105,555	1,267,702

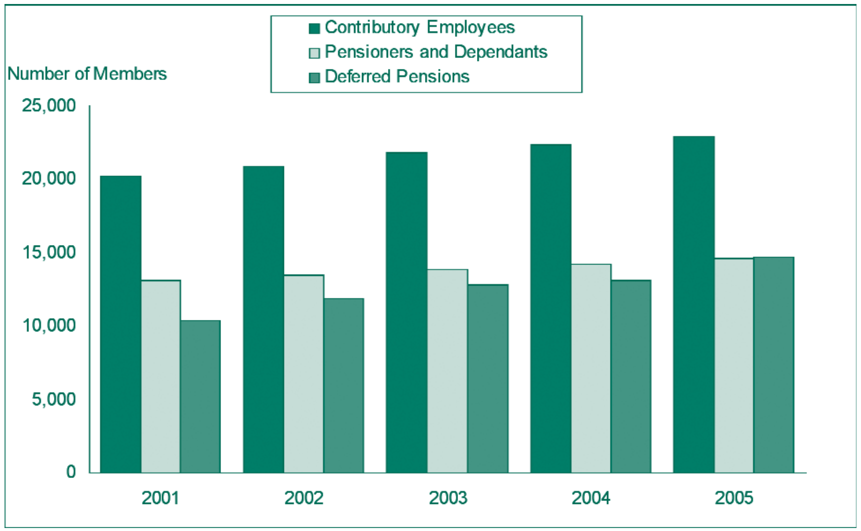
Note *Employers contributions include one off payments of £45.1m received from 8 borough councils underthe DTLR's direction on the use of capital receipts to liquidate Pension Fund deficits.





Membership Summary

	2000/01 £000	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000
Contributory Employees					
Scheduled Bodies	18,796	19,382	20,187	20,743	21,184
Admitted Bodies	1,413	1,518	1,593	1,612	1,796
	20,209	20,900	21,780	22,355	22,980
Pensioners and Dependants					
Scheduled Bodies	12,494	12,812	13,112	13,426	13,736
Admitted Bodies	625	651	712	770	839
	13,119	13,463	13,824	14,196	14,575
Deferred Pensions					
Scheduled Bodies	9,727	11,073	11,879	12,209	13,674
Admitted Bodies	712	843	907	945	1,037
	10,439	11,916	12,786	13,154	14,711
Total membership	43,767	46,279	48,390	49,705	52,266



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 the Surrey Magistrates' Courts and 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 35. The regulations also allow for the admission of private sector contractors providing outsourced services. The Fund does not cover teachers and firefighters 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.

Employees' contributions are now standardised at the rate of 6% of pensionable pay although there is a protected rate of 5% for certain existing manual workers.

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 2004/2005

The results of the actuarial valuation undertaken at 31 March 2001 applied for the three years commencing 1 April 2002 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 160% of pensionable employees' contributions **and**
- An individual adjustment to the common rate which is expressed as a percentage of pensionable employees' contributions together with a cash amount for most Scheduled Bodies.
- The basis and assumptions used will be found in the Actuary's disclosure statement on page 19.

The contributions payable in 2004/2005 are shown on pages 32-35.

Future Contribution Rates

The contribution rates applying in the three year period commencing 1 April 2005 were determined by the Actuary on completion of his triennial review of the Fund as at 31 March 2004. He assessed the Fund's current and future liabilities and determined that it was necessary to increase the rate of employers' common contribution from 160% to 193% of pensionable employees' contributions. 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).

Annual Review

Amendments to the Local Government Pension Scheme Regulations 1997

There were a number of amendments to the scheme in 2004/5, the main amendments are as follows:

- Before 1 April 2004, a scheme member could only qualify for a pension entitlement if they had at least two years' scheme membership or had transferred their pension rights from another scheme. This meant that a member who left the scheme with less than two years' membership was only entitled to transfer their pension rights to another scheme, or to receive a refund of their pension contributions. From 1 April 2004, members no longer need to have two years' scheme membership to qualify for a pension entitlement. The qualifying period has been reduced to three months. This means that a refund of contributions can now only be paid to a member who leaves the scheme with less than three months' membership.

- Before 1 April 2004, if a member was retired due to permanent ill health with between one and two years' scheme membership, they were not entitled to an immediate payment of pension benefits. Instead, the member received a lump-sum ill-health grant. As the above new amendment now gives a scheme member with three months' service the right to an immediate payment of pension benefits if they are retired due to permanent ill health, the arrangement to receive an ill-health grant has been removed from the scheme.

- When a member retires due to permanent ill health with five or more years scheme membership, an extra period of membership, known as an ill health enhancement, is normally added to their membership as compensation for having to retire early. The scheme has been amended from 1 April 2004 to prevent a member who has been retired due to permanent ill health and who again becomes a member of the LGPS from receiving a second ill health enhancement if he or she is also retired due to permanent ill health in their second employment.

- If a current scheme member was receiving an LGPS pension in respect of previous local government scheme membership, upon retirement from the second employment he or she had the option to combine the two periods of service and receive a single pension based on the pensionable pay from the second employment. This arrangement could result in a significant financial cost to the second fund, which was difficult for the fund actuary to make advanced provision for because the member did not choose whether or not to combine the two periods of membership until he or she retired. As a result, the regulations were amended from 1 April 2004 to remove the option of combining the two periods of membership.

Investment report

- A scheme member who has previous LGPS pension rights with another employer may transfer those pension rights to their current fund. Before 1 April 2004 there was no time limit in which the member had to decide whether or not to transfer. This arrangement was out-of step with non-local government pension scheme transfers where the member had to make a decision within 12 months. The scheme has now been amended from 1 April 2004 so that a member must also decide within 12 months whether to transfer local government pension scheme rights.

- A scheme member has the right to appeal against any decision their employer or Surrey County Council (as the fund's administering authority) make, or fail to make, which affects their pension rights. The pension internal dispute resolution procedure (IDRP) has two stages. Before 1 June 2004 under the first stage, the scheme member could appeal to the 'Appointed Person' appointed by the administering authority. If the member was not satisfied with the Appointed Person's decision, he or she could proceed to the second stage and appeal to the Secretary of State. The IDRP was amended from 1 June 2004 to remove the Secretary of State from the process. Instead, stage 1 of the appeal will be referred to the authority or employer who made, or failed to make, the decision being appealing against. The administering authority will now deal with the second stage of the appeal.

- Amendment regulations were issued by the Office of the Deputy Prime Minister in December 2004, which came into force from 1 April 2005, increasing the minimum retirement age from age 50 to 55 and removing the right to retire under the 85-year rule. Following protests from trade unions these amendment regulations were subsequently revoked by the ODPM in August 2005. Discussions are now taking place between the ODPM, the Employers Organisation and trade unions on future amendments to the scheme necessary to ensure the schemes long term sustainability.

Membership
The total number of members has increased by 2,561 compared to 2003/2004.

Application of Powers
Throughout the year decisions under the Pension Scheme Regulations were made by officers under powers delegated by the County Council. The decisions taken, which generally related to the application of mandatory entitlements and pre-scribed calculations, ensured the full discharge of the County Council's statutory obligations under the scheme.

A number of discretionary decisions were made by officers under delegated powers either in line with decisions made by Committee or in line with clear precedents which had emerged from decisions previously taken by Committee.

New Scheme Employers
Surrey CC entered into an admission agreement on 1 January 2005 with G Burley & Sons Ltd.

The following Parish Councils joined the scheme:

Warlingham Parish Council	1.4.2004
Godstone Parish Council	6.12.2004

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 which 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 25% 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 which 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 new 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.

At Surrey the responsibility for the overall direction of the Fund's investment is delegated to the Executive Director, Resources 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.

External investment managers 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. Quarterly meetings are held with the external managers who explain the reasons for their actions in the previous quarter, and propose a strategy for the coming period.

During the last financial year the structure of the Fund changed and management was being undertaken by 12 Investment Managers, separated into 3 elements, the passive core, specialist core and satellite element.

In addition the Fund has investments in Development Capital funds managed by ISIS Capital, H G Capital, Merrill Lynch, Goldman Sachs and Standard Life with some residue funds in Bridgepoint Capital (formerly funds managed by Gartmore Asset Management).

At 31 March 2005 the market value of assets under management (excluding assets held by Surrey County Council) was £1,251 million; the proportion with each of the managers being:

Invesment Manager	Proportion of Funds under management
Legal and General Investment Management	21.5%
UBS Global Asset Management	16.7%
SG Asset Management	11.9%
Marathon Asset Management	9.5%
Western Asset Management	13.5%
ING Real Estate	6.0%
Mirabaud Investment Management Lld	3.9%
Majedie Asset Management	4.0%
TCW Investment Management Company	2.8%
JP Morgan Asset Management	3.0%
Citigroup Asset Management	2.8%
Schroders Investment Management Ltd	3.2%
Development Capital	1.2%

Market Background

(Courtesy of Paul Meredith, independent investment adviser)

Steady growth in economies…..

For the second year in succession developed economies grew at nearly 3%, a little above the long-term trend. The main stimuli were low interest rates, particularly in the US, and public spending well in excess of tax raised, effectively funded by excess savings exported from Asia and the Middle East. Chinese development continued apace and Japan and East Asia benefited. Inflation remained subdued.

The UK economy has performed relatively well over several years and continued to grow above trend. However, the Bank of England was amongst the first central banks to raise interest rates, reflecting limited spare capacity in the UK economy, strong consumer borrowing and an over-heated housing market.

……supported good returns from equities and property……

Company profits grew strongly and with low capital investment this led to good dividend growth, a few sizeable share buybacks and a resurgence in corporate acquisitions. For equity markets this supported their second year of recovery from the sharp “sell off” in early 2003. The depressing factors passed into history - asset write-offs of ill-judged investment during the technology, media and telecom [TMT] bubble years; US accounting scandals; in the UK the forced sale of equities by insurance companies to maintain solvency standards and even war in Iraq. Progress in this second year of recovery was less dramatic than in the first but still the UK equity market returned 16%, with smaller companies leading. Europe returned 18% but with relative currency weakness the US just 4%. Bond markets remained firm with the increase in government deficits barely sufficient to satisfy liability driven institutional demands and UK fixed interest and index-linked gilts both returned 6%. Property had another strong year, returning 18% with demand from institutional investors, who scrambled for diversifying assets with a better yield than fixed interest gilts.

Economic growth remains quite strong……

The global outlook appears reasonably robust. Central bankers and governments have provided a massive stimulus through both low interest rates and increased public spending. Record oil prices will dampen activity but developed economies are much less energy intensive than they were a generation ago. In the UK the housing market has slowed and consumer spending may follow but not yet to the extent that confidence is seriously eroded.

Nevertheless, the imbalances created through over-stretched consumer indebtedness and the twin US budget and trade deficits will need to unwind if prospects are to remain both healthy and durable. Eventually this must include higher taxes, lower government spending and substantial weakness in the US dollar, particularly against Asian currencies. This hinges mainly on the inscrutable but invariably cautious Japanese and Chinese authorities and their influence is likely to be very measured.

……but equity valuations are discounting this……

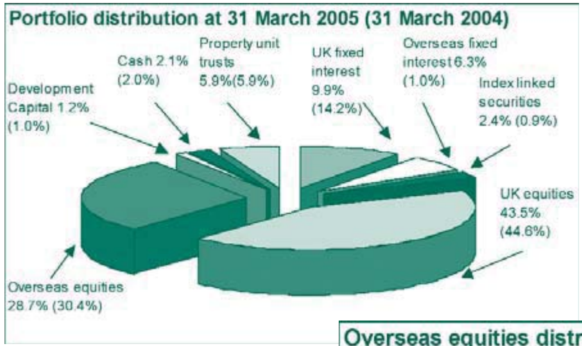
Company profit margins have now recovered to high levels and further significant progress seems unlikely in the face of unremitting global competition in manufactures and distribution. Equity valuations, while still well below the excesses of five years ago, particularly for TMT, are now once more relatively high by most long-term measures. This seems to be predicated on continuing steady growth in economies and in company profits, which could be vulnerable to any signs that US house prices and consumer spending are flagging.

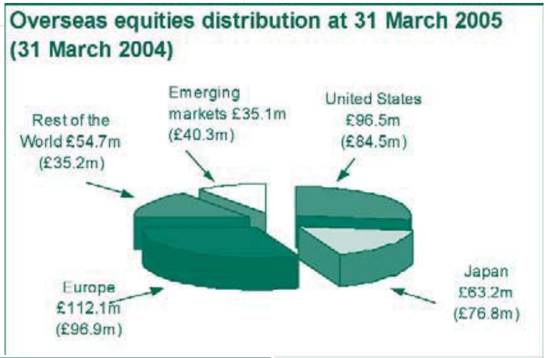
......nevertheless, equities remain the Fund's main investment.

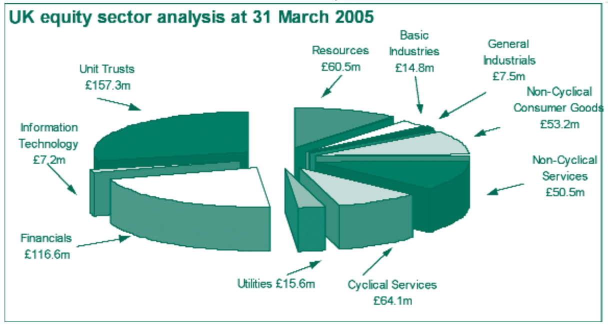
In the very long-term equity returns are underwritten by company earnings, which are expected to broadly track economic growth and with dividends added to total return to exceed it by a small "risk premium". Under most scenarios this should be slightly better than returns from property and bonds, albeit with a lower differential than in the last 25 years, which have been unusually favourable, with inflation gradually coming back under control and interest rates following. However, the Fund should never be forced into an untimely reduction in its equity emphasis, as insurance companies were in early 2003. So a prudent balance is struck, with enough in equities to produce the higher returns which help to keep employer contributions down, offset by enough in bonds and property to provide diversification and to help to moderate potential upward fluctuations in that contribution rate. This is a difficult risk judgement taken on actuarial advice. The current 75% equity benchmark followed an asset liability study in 2000. A further appraisal will occur during 2005/2006.

Portfolio Distribution

The distribution of the portfolio at 31 March 2005 is shown below. The larger chart shows distribution over the entire structure of the portfolio, whereas the smaller charts provide more detailed analysis of the overseas and UK equity sectors.

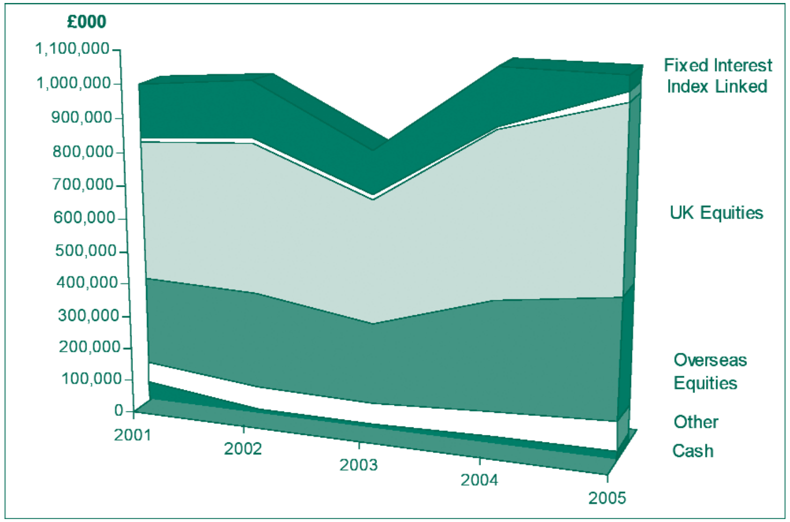






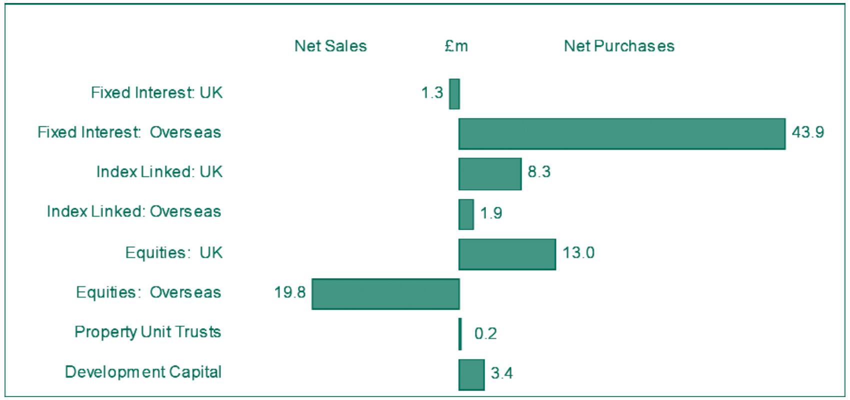
Investment Distribution

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



Investment Activity

The net investment activity during the year is reflected in the chart below.



Investment Performance

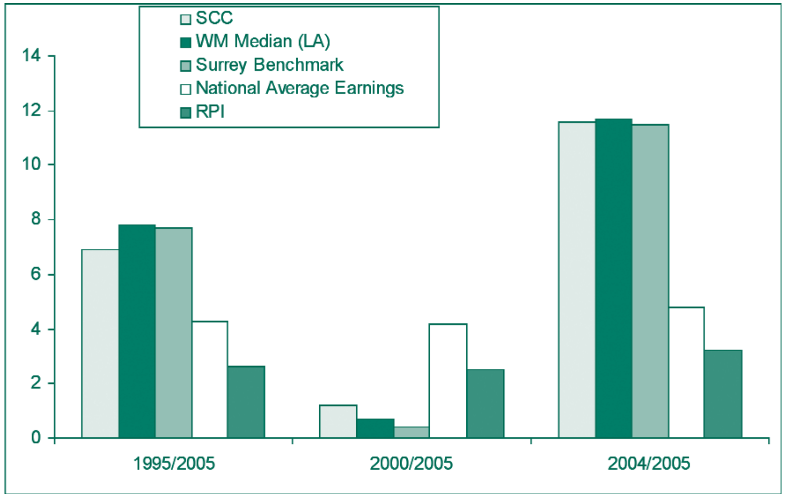
The Fund participates in two investment performance measurement services which assess the rate of return achieved by the Fund and provide comparisons with the performance achieved by the other pension funds.

One of these services, covering local authority pension funds, is provided by the Society of County Treasurers and the Chartered Institute of Public Finance and Accountancy through the WM Company.

The other service, which includes funds from both public and private sectors, was provided by Russell Mellon CAPS during 2004-2005 and will now be provided by Northern Trust. Surrey also has a customised benchmark for performance measurement, which is used in conjunction with the Russell Mellon CAPS median.

This year returns overall remained high although not quite to the exceptional level of last year. The Fund underperformed the local authority median by 0.1% but performed well against the Surrey benchmark by an out-performance of 0.1%. Over the longer term performance for the 5 and 10 year periods has slightly increased upon last years figures with a particularly good result against the median and Surrey benchmark for the 5 year average.

Performance is continually reviewed at regular intervals as per the Statement of Investment Principles on page 45.

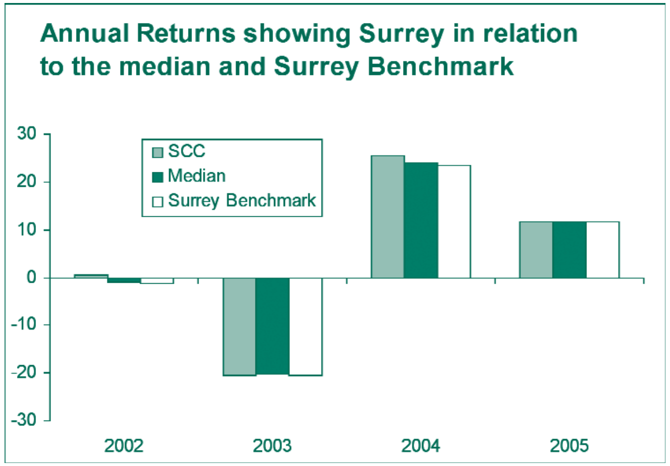


All the rates of return quoted take into account investment income as well as realised and unrealised capital profits or losses in the period.

Annual returns over each of the last three years, and the five and ten year averages as measured by the WM Local Authority Survey are as follows:

Financial Years	SCC %	Local Authority Median %	Surrey Benchmark %
2004-2005	11.6	11.7	11.5
2003-2004	25.5	23.9	23.3
2002-2003	-20.4	-20.1	-20.5
2001-2002	0.3	-1.0	-1.3
2000-2001	-4.9	-7.5	n/a
2000-2005 (5 year average)	1.2	0.7	0.4
1995-2005 (10 year average)	6.9	7.8	7.7

The surrey Benchmark figure for 5 and 10 year periods reflects both the new core satellite approach and old balanced structure.



Annual Returns for Fund Managers

Given the transition to a new fund management structure investment returns for each fund manager for the year to 31 March 2005 are not available. These figures will, however, be published in next year's annual report.

Actuarial Position

1 An actuarial valuation of the Fund was carried out as at 31 March 2001.

2 This valuation showed that the required level of contributions to be paid to the Fund by the County Council with effect from 1 April 2002 was 158% of members' contributions plus a regular monetary sum, which was £16,572,000 in 2004/2005. The rates payable by participating District Councils and other scheduled bodies with effect from the same date are set out in appendix 2 on pages 32-34..

3 These rates of contribution are the rates which, in addition to the contributions paid by the members, are sufficient to meet:

- 100% of the liabilities arising in respect of service after the valuation date
- **plus** an adjustment over the future working lifetime of the membership to reflect the shortfall of the value of each participating employer's notional share of the Fund's assets compared with 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.

4 The market value of the Fund's assets at the valuation date was £989 million and represented 75% of the Fund's accrued liabilities allowing for future pay increases.

5 The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:

- **Rate of return on investments:** 6.75% per annum before retirement and 5.90% per annum after retirement
- **Rate of general pay increases:** 4.25% per annum
- **Rate of increases to pensions in payment** (in excess of Guaranteed Minimum Pensions GMPs): 2.5% per annum
- **Valuation of assets:** market value

6 In addition to the ongoing contributions payable, participating employers are providing in various ways for the cost of additional liabilities arising from early retirements.

7 The next actuarial valuation is due to be carried out as at 31 March 2004 and changes in contribution rates as a result of that valuation take effect from 1 April 2005.

Statement of Accounts

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 Executive Director, Resources;
- 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 Executive Director, Resources

The Executive Director, Resources 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 Executive Director, Resources 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 Executive Director, Resources 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 Auditors' Report to Surrey County Council on the Pension Fund Annual Report

We have examined the financial statements included in the Pension Fund Annual Report set out on pages 22 to 30.

This report is made solely to Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective responsibilities of Chief Financial Officer and auditors

As described on page 20 the Chief Financial Officer is responsible for preparing the Annual Report in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes 2002". Our responsibility is to report to you our opinion on the consistency of the financial statements within the Annual Report with Surrey County Council's statutory financial statements. We also read the other information contained in the Annual Report and consider the implications for our report if we become aware of any misstatements or material inconsistencies with the statutory financial statements. Our audit report is made solely to Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Basis of opinion

We conducted our work in accordance with paragraphs 15 to 18 of Bulletin 1999/6 'The auditor's statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the financial statements set out on pages 22 to 30 of the Annual Report are consistent with the statutory financial statements of Surrey County Council for the year ended 31 March 2005 on which we have issued an unqualified opinion.

Nick Ward

Nick Ward
District Auditor

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".

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

- All UK securities traded within SETS (Stock Exchange Electronic Trading Service) are valued using last SETS traded price. All other UK securities are valued on the basis ofmiddlemarket prices at close of business on the last trading day of the financial year.
- Unlisted securities are valued having due regard to latest dealings, professional valuation, asset values and other appropriate financial information.
- Overseas securities are valued on overseas stock exchange quotations at close of business on the last day of the financial year.

Property and other Unit Trusts are valued at the Unit Trust managers' valuations.

The sterling values of overseas securities have been assessed on the currency exchange rates ruling on the last trading day of the financial year.

Investment Income

Interest and dividends due but not received on holdings quoted ex-dividend at 31 March 2005 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 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 2005

	Note	2005 £000	2004 £000
Contributions and Benefits			
Contributions receivable	1	90,324	91,963
Transfers in		16,782	10,394
		107,106	102,357
Benefits payable	2	62,830	60,301
Leavers	3	13,422	9,425
Administrative expenses		1,020	975
		77,272	70,701
Net additions from dealings with members		29,834	31,656
Returns on Investments			
Investment income	5	27,982	29,190
Change in market value of investments		107,797	202,320
Investment management expenses	4	(3,466)	(2,508)
Net returns on investments		132,313	229,002
Net increase (decrease) in the Fund during the year		162,147	260,658
Net Assets of the Fund At 1 April		1,105,555	844,897
At 31 March		1,267,702	1,105,555

Statement of Net Assets as at 31 March 2005

	Note	2005 £000	2004 £000
Investment Assets	15		
Fixed Interest Securities		204,259	167,024
Index Linked Securities		30,202	9,811
Equities		908,867	824,262
Property Unit Trusts		74,210	64,408
Development Capital		15,339	10,800
Cash		26,304	22,513
		1,259,181	1,098,818
Net Current Assets	6	8,521	6,737
Net Assets of the Fund at 31 March		1,267,702	1,105,555

I certify that the Statement of Accounts presents fairly the financial position of the Pension Fund at 31 March 2005 and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after that date.

Michael Taylor
Executive Director, Resources
October 2005

Notes to the Statement of Accounts as at 31 March 2005

1 Contributions Receivable	2005 £000	2004 £000
Employees' basic		
Administering Authority	11,903	11,129
Scheduled Bodies	8,880	8,261
Admitted Bodies	2,148	1,761
Employees' additional		
Administering Authority	112	107
Scheduled Bodies	95	81
Admitted Bodies	37	32
Employers' basic		
Administering Authority	36,237	34,121
Scheduled Bodies	23,813	22,961
Admitted Bodies	5,031	4,176
Employers' additional		
Administering Authority	135	620
Scheduled Bodies	1,661	8,439
Admitted Bodies	272	275
	90,324	91,963

2 Benefits Payable	2005 £000	2004 £000
Retired employees pensions		
Administering Authority	23,184	21,885
Other Scheduled and Admitted Bodies	24,767	22,983
Lump sums		
Administering Authority	3,301	3,246
Other Scheduled and Admitted Bodies	4,656	3,535
Death grants		
Administering Authority	811	306
Other Scheduled and Admitted Bodies	337	463
Widows' pensions		
Administering Authority	2,403	2,133
Other Scheduled and Admitted Bodies	3,181	2,963
Children's pensions		
Administering Authority	75	52
Other Scheduled and Admitted Bodies	50	35
	62,765	57,601

The Fund Account includes interest on late payment of benefits £65,000.

3 Leavers	2005 £000	2004 £000
Transfers	12,928	8,640
Refunds of contributions	352	421
State scheme premiums	142	364
	13,422	9,425

4 Investment Management	2005 £000	2004 £000
Investment management and custodial fees	3,056	1,763
Actuarial, performance measurement and legal fees	271	616
Internal administration and accounting	139	129
	3,466	2508

5 Investment Income	2005 £000	2004 £000
Fixed Interest		
UK	6,033	5,691
Overseas	2,927	225
Index Linked		
UK	323	278
Overseas	207	199
Equities		
UK	13,006	15,275
Overseas	2,721	3,683
Property Unit Trusts	1,800	3,095
Development Capital	37	83
Cash	907	644
Underwriting Commission	21	15
Miscellaneous	-	2
	27,982	29,190

6 Current Assets and Liabilities	2005 £000	2004 £000
Debtors		
Investment income	6,412	5,245
Contributions	3,130	3,091
Inland Revenue	3	-
Benefits (including transfer values)	411	816
	9,956	9,152
Creditors		
Contributions	-	122
Benefits (including transfer values)	-	1,424
Inland Revenue	387	144
Investment expenses	1,048	725
	1,435	2,415
Net current assets	8,521	6,737

7 Unlisted Securities
The value of unlisted securities in the Fund at 31 March 2005 is £15,339,047 (31 March 2004 is £10,988,475).

8 Outstanding Commitments
At 31 March 2005 the Fund held part paid investments on which the liability for future calls amounted to £30,909,302. The Fund had no sub-underwriting commitments as at 31 March 2005.

9 Provision for Bad Debts
A provision for bad debts has been raised for a payment made in error to an individual. The provision amounts to £27,325.

10 Forward Currency Contracts
At 31 March 2005 the Fund had 35 forward currency contracts in place with a net unrealised profit of £324,223. These contracts were closed in May 2005.

11 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.

12 Book Cost
The book cost of all investments at 31 March 2005 is £1,164,259,298.
(£1,088,748,939 at 31 March 2004).

13 Custody
Custody arrangements for securities and cash balances are provided by Surrey's Global Custodian, The Northern Trust Company. Custodian arrangements for the managers responsible for development capital are as follows:

ISIS Capital	RBS Trust Bank
Goldman Sachs	Investors Bank & Trust Company
HG Capital	Bank of New York
Merrill Lynch	Mellon Bank

14 Related Party Transactions
Employer's pension contributions paid by Surrey County Council, Magistrates and Probation in 2004/2005 were £39,634,213 (£34,740,914 in 2003/2004).

Employers normal contributions	£21.3m
Annual monetary amount	£18.2m
Early retirement liabilities	£ 0.1m

Net amounts owed by Surrey County Council to the Fund as at 31 March 2005 were £7,117,913, (£7,681,178 as at 31 March 2004).

15 Investments

	Value at 1 April 04 £000	Purchases at Cost £000	Sale Proceeds £000	Market Movements £000	Value at 31 March 05 £000
Fixed Interest Securities	167,024	374,124	331,514	(5,375)	204,259
Index Linked Securities	9,811	42,958	32,742	10,175	30,202
Equities	824,262	430,036	436,859	91,428	908,867
Property Unit Trusts	64,408	21,227	21,015	9,590	74,210
Development Capital	10,800	3,868	486	1,157	15,339
Cash					
Cash Instruments	-	-	-	-	-
Deposits	22,513	2,969		822	26,304
	1,098,818	875,182	822,616	107,797	1,259,181

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.

Appendix 1

	2005 £000	2004 £000
15.1 Fixed Interest Securities		
UK public sector quoted	86,340	49,909
UK unit trusts	38,551	106,709
Overseas public sector	60,122	8,172
Overseas unit trusts	19,246	2,234
	204,259	167,024
15.2 Index Linked Securities		
UK index linked public sector	12,224	3,979
Index linked unit trusts	10,032	-
Overseas public sector	7,946	5,832
	30,202	9,811
15.3 Equities		
UK quoted	389,102	464,348
UK unit trusts	158,162	26,171
Overseas quoted	160,527	197,540
Overseas unit trusts	201,076	136,203
	908,867	824,262
15.4 UK Property Unit Trusts	74,210	64,408
15.5 Development Capital		
UK unquoted	7,549	2,653
UK unit trusts	7,790	8,147
	15,339	10,800
15.6 Cash		
UK cash instruments	-	-
Overseas cash instruments	-	-
Sterling deposits	24,822	22,466
Amounts owed to brokers	(608)	(23)
Foreign currency	1,766	4
Forward contracts	324	66
	26,304	22,513
Total Investments	1,259,181	1,098,818

The Fund's Largest Shareholdings

	Market Value at 31 March 2005 £m	£m
Top 10 United Kingdom Equities		
BP PLC	35.5	
Vodafone Group	32.7	
GlaxoSmithKline	25.2	
Royal Bank of Scotland	23.7	
Royal Dutch Shell	20.1	
HSBC	19.2	
Barclays	15.2	
HBOS	14.0	
Prudential	10.6	
BT Group	10.1	206.3
Top 10 Overseas Equities		
Costco Whsl Corp	2.6	
Halliburton	2.1	
Jardine Matheson	2.1	
Jardine Strategic	1.9	
Tokyo Elec Power	1.8	
Sumitomo Mitsui	1.8	
Citigroup Inc	1.8	
Santos Limited	1.8	
Dell Inc	1.7	
Kohls Corp	1.7	19.3
Top 5 Unit Trusts		
Legal & General UK Equity	148.0	
UBS Asset Life Global Optimal	58.8	
Schroder Retail European	43.2	
Legal & General AAA-AA-A Bonds-All Stks	29.9	
Legal & General All Stocks Gilt	29.7	309.6
		535.2

These holdings make up 42.2% of the total value of the portfolio.

Appendix 2

Employing Bodies and Contribution Rates payable in 2004/2005

Scheduled Bodies	% of Members' contributions	Annual monetary amount £
Administering Authority		
Surrey County Council	158	16,572,000
Borough and District Councils		
Elmbridge Borough Council	170	1,058,000
Epsom & Ewell Borough Council	166	774,000
Guildford Borough Council	158	1,512,000
Mole Valley District Council	171	371,000
Reigate & Banstead Borough Council	175	760,000
Runnymede Borough Council	166	608,000
Spelthorne Borough Council	174	83,000
Surrey Heath Borough Council	174	153,000
Tandridge District Council	168	1,127,000
Waverley Borough Council	169	1,455,000
Woking Borough Council	160	1,484,000
Parish and Town Councils		
Ash Parish Council	215	18,495
Bramley Parish Council	215	375
Bisley Parish Council	215	-
Claygate Parish Council	200	-
Cranleigh Parish Council	215	15,365
East Horsley Parish Concil	215	-
Farnham Town Council	215	7,595
Frensham Parish Council	215	-
Godalming Town Council	215	13,292
Godstone Parish Council	215	-
Haslemere Town Council	215	-
Horley Town Council	215	7,585
Ripley Parish Council	215	983
Send Parish Council	215	897
Shalford Parish Council	215	419
Shere Parish Council	215	1,126
Tongham Parish Council	215	259
Warlingham Parish Council	215	-
West End Parish Council	215	-
Windlesham Parish Council	215	3,329
Witley Parish Council	215	2,263
Worplesdon Parish Council	215	-

Scheduled Bodies	% of Members' contributions	Annual monetary amount £
Other Authorities		
The Surrey Police Authority	142	756,000
Statutory Committees		
Surrey Magistrates' Courts Committee	153	344,000
Surrey Probation Committee	151	413,000
Surrey Valuation Tribunal	215	4,452
Further Education Establishments		
Brooklands College	292	-
East Surrey College	205	-
Esher College	224	-
Farnham College	224	-
Godalming College	224	-
Guildford College	248	-
NESCOT	272	-
Reigate College	224	-
Spelthorne College	224	-
Strode's College	224	-
The Surrey Institute of Art & Design	173	-
Woking College	224	-
Former Grant Maintained Schools		
The Beacon School	332	-
Binscombe Junior School	332	-
Blenheim High School	332	-
Burpham Primary School	332	-
Burstow Primary School	332	-
Bushy Hill Junior School	332	-
Cleves Junior School	332	-
Collingwood College	332	-
De Stafford College	332	-
Epsom & Ewell High School	332	-
Fullbrook School	332	-
Glyn School	332	-
Godstone Village School	332	-

Appendix 3

Scheduled Bodies	% of Members' contributions	Annual monetary amount £
Former Grant Maintained Schools (continued)		
Gordon's School	332	-
The Guildford County School	332	-
Hawkedale School	332	-
Heathside School	332	-
Hinchley Wood School	332	-
Holy Trinity School, Guildford	332	-
Kings College	332	-
Kings International School	332	-
The Manor School	332	-
Northmead School	332	-
Park Mead First School	332	-
Park Mead Junior School	332	-
Pewley Down School	332	-
Pippins School	332	-
Rosebery School	332	-
St John The Baptist School	332	-
St Paul's Catholic College	332	-
St Thomas of Canterbury School	332	-
Salesian School	332	-
Sayes Court School	332	-
Send C of E First School	332	-
The Stoneleigh School	332	-
Tadworth Primary School	332	-
Thamesmead School	332	-
Wallace Fields Junior School	332	-
Whyteleafe School	332	-
The Winston Churchill School	332	-
Woodlea Primary School	332	-
Yattendon Junior School	332	-
Joint Boards or Joint Committees		
Epsom & Walton Downs Conservators	215	18,797
Godalming Joint Burial Committee	215	-
Merton & Sutton Joint Cemetery Board	215	11,841
Nonsuch Park Joint Management Committee	215	21,930

Admitted Bodies	% of Members' contributions
With Contributing Employees	
A2 Housing Group	340
Carillion	198
Elmbridge Housing Trust	156
G Burley & Sons	197
Hanover Housing Association	205
John Stanley Jeffries Swimming Pool Trust	239
Moor House School	222
Commission for Social Care Inspection	275
Peerless Housing Group	330
Peper Harow Foundation (Thornby Hall)	290
Princess Alice Hospice	234
Reigate Grammar School	239
Reigate and Banstead Housing Trust	190
Ringway Highway Services Ltd	198
Rosebery Housing Association	234
Royal Grammar School, Guildford	239
Royal School for Girls, Hindhead	239
SERCO	250
Sir William Perkins's School	239
Surrey Alcohol and Drug Advisory Service	208
Surrey Community Development Trust	198
Surrey Association for Visual Impairment	234
Surrey Wildlife Trust	200
University of Surrey	256
VT Four S	220
Waverley Community Transport	200
Woking Community Transport	234

Without Contributing Employees

Abbeyfield Wey Valley Society
Convent of the Sacred Hearts
Haslemere Swimming Pool Management Committee
Meath Homes
Peper Harow School
Rainer Foundation
Royal Philanthropic School
Royal School for Girls
St Piers Hospital School
South East Arts Board
South Eastern Provincial Council for Local Authorities' Services
Southlands College
Woking Strollers

Funding Strategy Statement

Introduction:
Purpose of the Fund Strategy Statement

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

2. 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

3. The intention is for this strategy to be both cohesive and comprehensive for the fund as a whole, recognising that there will be 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.

4. As administering authority of the Surrey LGPS, Surrey CC must address the key requirement of consulting with all relevant interested parties involved with the pension fund – for example, local authority employers; admitted bodies; scheduled/resolution bodies – before preparing and publishing the pension fund funding strategy.

5. This funding strategy statement (FSS), which has been produced in line with guidance published by CIPFA's Pensions Panel, is the result of addressing the key requirement of consulting with all relevant interested parties. This FSS should be read in conjunction with the County Council's report on the outcome of the 2004 actuarial valuation.

Background to the Surrey Pension Fund

6. The total value of the Pension Fund, as at 31 March 2005, was £1.3bn and in 2004/2005 employer contributions into the pension fund amounted to £67m.

7. There are over 100 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.

8. The level of contributions into the fund to be paid by each employer is determined by the triennial actuarial valuation. The 2004 actuarial valuation determined the level of contributions to be paid by employers during the period 1 April 2005 to 31 March 2008. The draft results of the valuation were received at the beginning of December 2004, allowing employers to incorporate any changes in contribution rates into the budget setting process for 2005/2006.

The aims and purpose of the Pension Fund

9. 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.

10. 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

11. 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, 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

12. Individual employers in the Fund will:
- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by Hymans Robertson, 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.

13. Hymans Robertson, 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

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

Background

15. 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.

16. 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.

17. 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.

18. Regulations issued by the 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).

19. The last actuarial valuation, as at 31 March 2001, 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 this 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%.

20. The overall funding level 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 the deficiency.

The 2004 Actuarial Valuation

21. During summer 2004 Surrey County Council had preliminary discussions with Hymans Robertson, to establish ways of responding to the likely outcome of the 2004 actuarial valuation. Early indications were that the whole fund funding level would reduce, leading to an increase in lump sum payments into the Fund. However, ongoing contribution rates were expected to be relatively stable, given the recent changes in the regulations governing the application of the LGPS.

22. A number of ways of mitigating the impact of these results on employers were identified including:
- Increasing the length of time over which fund deficits will be recovered
- Applying different spread period for different employers to reflect the funding level of each individual employer
- Applying different spread periods for different employers to reflect the funding status of each individual employer (i.e. whether or not the employer has tax raising powers)
- Changing the financial assumptions used within the valuation
- Changing the investment assumptions used within the valuation
- Changing the approach for 'closed' employers, i.e. those employers that are no longer accepting new members.
- Grouping certain employers to recognise

common characteristics, e.g. size of membership

23. The purpose of this FSS is to have full transparency regarding the options available to employers.

24. As administering authority, Surrey County Council recommends as consistent an approach as is possible. However, it is acknowledged that some employers have unique features that should be recognised when setting the assumptions to be used in the actuarial valuation.

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

The 2004 valuation results

26. The following table summarises the main results of the 2004 valuation:

	2001 Valuation	2004 Valuation
Active Members		
Number of active members	20,510	22,100
Total Annual Pensionable Pay	**£290.5m**	**£434.4m**
Average Pensionable Pay	£14,164	£19,656
Deferred Pensions		
Number of Deferred Pensioners	10,079	14,656
Total annual value of deferred pensions payable in future	**£15.0m**	**£20.9m**
Pensioners and Widow(er)s		
Number of pensioners	13,111	14,293
Total annual pensions payable	**£48.3m**	**£53.3m**
Average pension in payment	£3,684	£3,729
Value of Liabilities	**£1,317.0m**	**£1,623.0m**
Market Value of the Fund	**£988.9m**	**£1,105.6m**
Solvency Level of the Fund	**75.0%**	**68.0%**

27. As expected, the solvency level of the Fund has reduced to 68%. Consequently employer contribution rates have to increase.

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

1. The ongoing rate, currently 160% of employees' contributions, which provides the year-by-year accrual of benefits for current employees
2. A lump sum in respect of past service liabilities, currently £26.1m in 2004/2005 and estimated to increase by inflation.

29. Following discussions with the Fund actuary, the following measures have been adopted to mitigate the impact of the increase in contribution rates:

Ongoing Rate

30. Allowance for the proposed abolition of the 'rule of 85'. This measure reduces future service contribution rates by 1.6%.

31. Allowance for the Fund's investment strategy and expected future returns on investments. The Fund's current asset allocation strategy was derived following an asset-liability modelling (ALM) study of the Fund in the summer 2000. This resulted in a decision to invest 75% of the Fund in equities and 25% in fixed interest stocks and property. This new benchmark was implemented in November 2000.

32. Having analysed historic results and future projections of equity returns the Fund Actuary and the administering authority recommend 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 is assumed that this return will be 2% p.a. more than that which may be achieved if the fund was invested solely in government bonds. This measure reduces future service contribution rates by 7.3% of payroll.

Lump Sum Rate

33. The second element of the contributions made by employing authorities is the contribution paid to liquidate the deficit on the pension fund. The 2004 valuation found that the overall fund deficit increased from £328m to £516m. Historically the deficit has been recovered over the remaining working lifetime of active employees in the Fund. At the 2001 valuation this was determined to be 13 years. If the deficit continued to be spread over 13 years then the average annual employer contribution to liquidate the deficit would amount to 16.6% of payroll (giving a total employer contribution rate of 28.2% of payroll.)

34. However, given the abolition of the 'rule of 85' it is not unreasonable to increase the period over which the Fund deficit is recovered. The actuary has assessed that the average age of employees in the Fund is 44.4 years. Therefore each employee has a remaining working lifetime of around 20 years.

35. The Fund Actuary and the administering authority therefore recommended recovering the deficit over 20 years, which results in an average past service adjustment of 8.9% of payroll (a reduction of 7.7% of payroll), to be expressed in monetary terms for the purpose of effective budgeting. Again lump sums paid by individual employers will vary depending on the size of the employer's share of the pension fund deficit. The total recommended average employer contribution rate (expressed as a percentage of payroll) therefore comprises:

Future service funding rate	11.6%
Past service adjustment	8.9%
TOTAL	20.5%

"Stepping" of Increases in Contributions

36. In 1995 it was agreed that, in order for the Fund to return to 100% solvency, the employers could make stepped increases in contributions to fund past service liabilities. The steps were to be made over a 6-year period after which the annual contributions would be fixed at the final stepped rate determined by the actuary. There are a handful of employers that will, despite the increase in the deficit recovery period and due to circumstances specific to each employer, see a disproportionately large increase in lump sum payments to be made in 2005/2006 compared to the current financial year. These employers have been advised that it may be possible to adopt the 1995 stepping approach.

37. Those employers with less onerous increases in lump sum contributions have been offered the opportunity to step their increase over the 3-year inter-valuation period. The administering authority is, however, advising that any employer that chooses to step the increases in contributions must be aware that they will be making smaller inroads into the overall deficit, which will be reflected in the 2007 actuarial valuation.

Consultation

38. The larger employers in the Fund have been fully consulted on the approaches taken to mitigate the impact of the 2004 actuarial valuation. This consultation includes written communication and attendance at meetings of the Surrey Treasurers' Association.

39. The Borough and District Councils have agreed individual approaches to spreading the impact of the increase in the relevant share of the pension fund deficit. Some employers have chosen to step the increase in lump sum payments, while others have opted to implement the full rate in 2005/2006.

40. These employers have also agreed the blanket approach of taking into account the abolition of the rule of 85 and the adoption of a 2% Equity Risk Premium.

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

41. 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.

42. The Fund's Statement of Investment Principles is a formal statement of how the County Council carries out these responsibilities.

43. 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 2000 and the resultant customised benchmark was implemented in November 2000. The next ALM study will take place early in 2006.

The identification of risks and counter-measures

44. 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 quartely 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 bodie **Demographic risks**	Apply different deficit recovery periods to reflect the financial standing of employers.
The longevity horizon continues to expand	Hymans Robertson is using long-term longevity projections (30 years) in the 2004 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 will make prudent assumptions about the future local government workforce, under the guidance of the administering authority.

Regulatory risks	
Changes to LGPS regulations	Hymans Robertson will take into account the impact of the Local Government Pension Scheme (Amendment) Regulations 2004 in the actuarial valuation.
Changes to national pensions requirements and/or Inland Revenue rules	Not applicable at present but to be kept under review.
Governance	
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

45. This is the final Funding Strategy Statement. The larger employers in the Surrey Pension Fund have been fully consulted on the approaches taken to mitigate the impact of the 2004 actuarial valuation. The major employers were also asked to approve the first draft of the FSS.

Statement of Investment Principles

1. **Overall Responsibility**

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

Investment policy and associated monitoring and review are delegated to the Executive Director, Resources 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 SLGA
- a representative of the members of the Fund
- a representative of the Fund's professional investment adviser
- an independent adviser
- the Executive Director, Resources

The Advisers meet quarterly and make a report to the County's Audit & Governance Committee. The Advisers are not trustees (technically the Office of the Deputy Prime Minister 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 specialist investment adviser to the pension fund, advised that the prevailing fund management arrangements were sub-optimal and that a core-satellite structure should be considered. This structure sub-divides investments into three types, each with a different level of risk and target return profile:

The **passive core** 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% 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 **satellite structure** contains a number of smaller fund managers specializing in specific equity regions with a higher investment target and, by implication, taking a higher level of risk.

Following an extensive procurement exercise the Fund moved to a core-satellite structure in 2004. This resulted in substantial changes to the fund management arrangements with a move from 3 multi-asset managers to the following:

	Manager	% of Fund
Passive Core	Legal and General	20.0
Active Core		
UK Equity 1	SG Asset Management	12.5
UK Equity 2	UBS Global Asset Management	13.0
Global Equity 1	Marathon Asset Management	10.0
Global Equity 2	UBS Global Asset Management	4.5
Bonds	Western Asset Management	15.0
Property Fund of Funds	ING Real Estate	5.0
Satellite Managers		
UK Equity 1	Mirabaud	4.0
UK Equity 2	Majedie	4.0
US Equity	TCW	3.0
European Equity	Schroders	3.0
Pacific Basin Inc Japan Equity	JP Morgan Fleming	3.0
Emerging Markets Equity	Citigroup	3.0

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. The number of new managers appointed under the new 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 or development capital. This allocation is achieved by investing in fund of funds, managed by a number of private equity specialists. The investments are funded through cash flow.

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 2000 and the resultant customised benchmark was implemented in November 2000. The next ALM study is expected to take place early in 2006.

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 development capital or development capital 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.

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. The panel 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:

Asset Class	% Benchmark Allocation	% Permitted tolerance range	Index
UK Equities	45	40 - 50	FTSE All Share
Overseas Equities			
US/North America	9	5 – 13	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	3	0 – 5	S&P 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
UK Index-Linked Gilts	1.5	0 - 5	FTSE Actuaries Govt. I-L All-stock
Overseas I-L Gilts	1.5	0 – 5	Lehman Bros. Over 5 yrs TIPS (Hedged)
Overseas Bonds Index	1	0 – 5	JP Morgan Global (ex UK) Traded Bond
Property	5	0 – 10	Investment Property Databank
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% - 2.0%
Satellite	High	3% – 4%
TOTAL	Medium	

The performance target for the Development Capital Funds is to outperform returns on quoted UK equities as measured by the FTSE All Share Index.

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 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 triennially following the actuarial review. The SIP will also be reviewed annually.

A review of investment management arrangements is carried out every five 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 in the final quarter of each calendar year, where possible, 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.

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 holds only a minimum working cash balance.

13. Administration
On behalf of the County Council, the Executive Director, Resources 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.

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. 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 Executive Director, Resources and the Fund Accountant.

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 will next be reviewed as part of the 2006 Asset Liability Modelling study (ALM).

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 will be reviewed as part of the 2006 ALM Study. 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) 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.

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

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. 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 and include summarised pension fund accounts. The SIP is published 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 available on the County Council website.

Contacts

Benefits and Contributions

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

Finance Department
PO Box 89
County Hall
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 Accountant on 020 8541 9208.

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.hmso.gov.uk/si/si1997/1971612.htm

Useful Addresses

The Pension Scheme Registry
PO Box 1NN
Newcastle upon Tyne
NE99 1NN
Telephone: 019 1225 6316

The Pensions Advisory Service (OPAS)
11 Belgrave Road
London
SW1V 1RB
Telephone: 084 5601 2923

Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB
Telephone: 020 7834 9144

Employee and Employer Guides

The ODPM has produced guides to the Pension Scheme Regulations. These are available on request from Pension Services.

National Website www.lgps.org.uk

Notes

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