

SURREY PENSION FUND ACCOUNTS 2018/2019

Surrey Pension Fund - Fund account

2017/2018			2018/2019
£000		Note	£000
	Contributions and benefits		
178,283	Contributions receivable	7	176,776
12,881	Transfers in	8	14,954
<u>191,164</u>			<u>191,730</u>
-144,146	Benefits payable	9	-149,832
-9,527	Payments to and on account of leavers	10	-10,946
-12,222	Investment and governance expenses	14	-13,641
-1,626	Administration expenses		-1,829
<u>-167,521</u>			<u>-176,248</u>
	Net additions from dealings with members		
<u>23,643</u>			<u>15,482</u>
	Return on investments		
65,751	Investment income	16	59,055
-1,032	Taxes on income	15	-785
98,662	Change in market value of investments	17	185,965
<u>163,381</u>	Net return on investments		<u>244,213</u>
	Net increase in the fund during the year		
<u>187,024</u>			<u>259,695</u>
	Net assets of the fund		
3,868,859	At 1 April		4,055,883
<u>4,055,883</u>	At 31 March		<u>4,315,578</u>

Surrey Pension Fund - Net asset statement

31 Mar 2018		Note	31 Mar 2019
£000			£000
	Investment assets	17	
601,208	Bonds		706,529
2,413,734	Equities		2,489,806
321,737	Property unit trusts		283,240
394,288	Diversified growth		402,589
155,782	Private equity		255,964
	Derivatives	17c	
	- Futures		
1,327	- Foreign exchange contracts		1,329
80,636	Cash		150,680
60,000	Other short term investments		0
4,740	Other investment balances	17b	3,407
	Investment liabilities		
	Derivatives	17c	
0	- Futures		0
-1	- Foreign exchange contracts		-1,452
-3,393	Other investment balances	17b	-3,445
0	Borrowings		0
4,030,058	Net investment assets		4,288,647
7,260	Long-term debtors	12	5,450
29,861	Current assets	11	30,635
-11,296	Current liabilities	13	-9,154
4,055,883	Net assets of the fund at 31 March		4,315,578

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

Note 1: Description of the fund

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The Surrey Pension Fund is the reporting entity.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over two hundred and fifty other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply. The fund is overseen by the Surrey Pension Fund Committee, which is a committee of Surrey County Council.

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

a) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.
- The number of employees in the fund and the number of pensioners as at 31 March 2018 and 31 March 2019 are:

Surrey Pension Fund	31 Mar 2018	31 Mar 2019
Total Number of Employers	251	271
Employees in the Scheme		
Surrey County Council	18,148	17,151
Other Employers	17,654	17,141
Total	35,802	34,292
Pensioners		
Surrey County Council	12,105	12,721
Other Employers	13,030	13,208
Total	25,135	25,929
Deferred Pensioners		
Surrey County Council	28,678	31,342
Other Employers	16,401	18,632
Total	45,079	49,974
Total Number of Members	106,016	110,195

b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

	Service pre 1 April 2008	Service 1 April 2008 until 31 March 2014
Basis of pension	1/80 th of final salary	1/60 th of final salary
Lump sum	Automatic lump sum 3 x pension Trade £1 of annual pension for £12 lump sum	No automatic lump sum Trade £1 of annual pension for £12 lump sum

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>).

	Service 1 April 2008 until 31 March 2014	LGPS 2014 scheme
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60 th of salary	1/49 th of salary
Revaluation rate	No revaluation: based on final salary	Inflation rate: consumer prices index (CPI)
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Employee contribution	See below table	See below table
Normal pension age	65	Equal to the individual member's State Pension Age
Lump sum trade off	Trade £1 of annual pension for £12 lump sum	Trade £1 of annual pension for £12 lump sum
Death in service lump sum	3x pensionable payroll	3x pensionable payroll
Death in service survivor benefits	1/160 th accrual based on Tier 1 ill health pension enhancement	1/160 th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

Pre 2014 employee contribution rates	
Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%
Estimated overall LGPS average	6.5%

LGPS 2014 employee contribution rates for 2018/19	
Pensionable payroll banding	Contribution rate
Up to £14,100	5.5%
£14,101 to £22,000	5.8%
£22,001 to £35,700	6.5%
£35,701 to £45,200	6.8%
£45,201 to £63,100	8.5%
£63,101 to £89,400	9.9%
£89,401 to £105,200	10.5%
£105,201 to £157,800	11.4%
More than £157,801	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>) or the LGPS 2014 scheme website (<http://www.lgps2014.org>).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at the year end at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 25 of these accounts.

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in/leavers are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included within transfers in.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

d) Private equity

Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

Fund account – expense items

e) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

f) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2019 is reported as a current liability.

g) Management expenses

Administrative expenses

Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and

entitlement information. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Governance expenses

Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

Net assets statement

h) Financial assets

Investments in Border to Coast Pensions Partnership are valued at transaction price i.e. cost. The pool's main trading company, Border to Coast Pensions Partnership Limited, only became licensed to trade on 1 August 2018 and no reliable trading results or profit forecasts are as yet available. Consequently, the pension fund's view is that the market value of this investment at 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other financial assets are included in the financial statements on a fair value basis as at the reporting date, with the exception of loans and receivables which are held at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) Market quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.
 - iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is as follows:
 - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
 - Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
 - Directly held investments by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.
 - iv) Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.
 - v) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
 - vi) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.
- i) Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
 - j) Derivatives
The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculation purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

m) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

o) Additional voluntary contributions

Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 26).

Note 4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2019 was £256 million (£155.8 million at 31 March 2018).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

No allowance has been made for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. It is currently unclear how this judgement may affect LGPS members' past or future service benefits. Discussions are ongoing between the governing bodies and the LGPS to understand how this may affect mechanisms within the scheme, however, at the time of producing the report no guidance or indication of the likely impact of this ruling has been provided.

Investment in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership only became licensed to trade on 1 August 2018
- no dividend to shareholders has as yet been declared
- no published trading results are as yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

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

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

The items in the net assets statement or subsequent notes as at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	<p>The net pension liability of the fund would change.</p> <p>a +0.5% increase in Pensions Increase Rate will increase liabilities by £574m</p> <p>a +0.5% increase in Salary Increase Rate will increase liabilities by £87m</p> <p>a +0.5% increase in the Discount Rate will increase liabilities by £674m</p> <p>a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.</p>
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £256 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £99.7 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

Note 7: Contributions receivable

By category

2017/2018		2018/2019
£0		£0
38,121	Total Employees' Contributions	38,502
	Employers' Contributions	
97,181	Normal Contributions	95,662
0	Augmentation Contributions	0
42,981	Employers deficit	42,612
140,162	Total Employers' Contributions	138,274
178,283		176,776

2017/2018		2018/2019
£000		£000
83,861	Administering authority	80,839
86,022	Scheduled bodies	87,698
8,400	Admitted bodies	8,239
178,283		176,776

The latest actuarial valuation carried out as at 31 March 2016, set contribution rates for fund employers with effect from April 2017. The financial year 2017/2018 is the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2017/2018		2018/2019
£000		£000
12,881	Individual transfers in from other schemes	14,954
12,881		14,954

Note 9: Benefits payable

By category

2017/18		2018/19
£000		£000
119,064	Pensions	126,014
21,606	Commutation and lump sum retirement benefits	19,571
3,399	Lump sum death benefits	4,146
77	Interest on late payment of benefits	101
144,146		149,832

By employer

2017/2018		2018/2019
£000		£000
69,429	Administering Authority	70,690
63,619	Scheduled Bodies	67,001
11,098	Admitted Bodies	12,141
144,146		149,832

Note 10: Payments to and on account of leavers

2017/2018		2018/2019
£000		£000
9,257	Group transfers to other schemes	10,732
283	Refunds of contributions	217
-13	Payments for members joining state schemes	-3
9,527		10,946

Note 11: Current assets

2017/2018		2018/2019
£000		£000
3,215	Contributions - employees	2,391
9,838	Contributions - employer	10,847
16,808	Sundry debtors	17,397
29,861		30,635

Analysis of current assets

2017/2018		2018/2019
£000		£000
5,612	Central government bodies	2,535
19,122	Other local authorities	23,435
5,128	Other entities and individuals	4,665
29,861		30,635

Note 12: Long term debtors

2017/2018		2018/2019
£000		£000
7,260	Central government bodies	5,450
7,260		5,450

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and that a balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2019 is £7.260m but £1.815m was due in 2018/19, leaving a long term debtor of £5.450m.

Note 13: Current liabilities

2017/2018		2018/2019
£000		£000
11,094	Sundry creditors	8,885
202	Benefits payable	269
11,296		9,154

Analysis of current liabilities

2017/2018		2018/2019
£000		£000
1,418	Central government bodies	1,345
6,254	Other local authorities	4,424
3,624	Other entities and individuals	3,385
11,296		9,154

Note 14: Investment and governance expenses

2017/2018		2018/2019
£000		£000
11,262	Investment management fees	10,256
239	Investment custody fees	171
721	Oversight and governance costs	3,214
12,222		13,641

The investment management fees includes £569k in respect of transaction costs (2017/18: £1.1million).

As part of its oversight and governance costs in 2018/19, the fund had also spent £2m in respect of pooling costs as part of Surrey Pension Fund's transition into the Border to Coast Pensions Partnership (BCPP)

Note 15: External Audit Costs

2017/2018		2018/2019
£000		£000
31	Payable in respect of external audit	21
<u>31</u>		<u>21</u>

Note 16: Investment income

2017/2018		2018/2019
£000		£000
	Bonds	
3,667	UK	0
7,468	Overseas	5,491
	Equities	
24,959	UK	23,526
11,260	Overseas	13,733
9,062	Property unit trusts	11,101
1,052	Diversified growth	1,693
2,315	Private equity	2,821
4,807	Interest on cash deposits	519
1,161	Other	171
<u>65,751</u>		<u>59,055</u>

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2018	Reclassified Asset	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2019
	£000	£000	£000	£000	£000	£000
Bonds	601,208		100,492	0	4,829	706,529
Equities	2,413,734		4,008,340	-4,070,705	138,437	2,489,806
Property unit trusts	321,737	-60,000	81,225	-65,569	5,847	283,240
Diversified growth	394,288		12,111	0	-3,810	402,589
Private equity	155,782	60,000	80,374	-91,286	51,094	255,964
Derivatives						
- Futures						
- Forex contracts	1,326		66,507	-37,130	-30,826	-123
	3,888,075	0	4,349,049	-4,264,690	165,571	4,138,005
Cash	80,636					150,680
Other Short Term Investments	60,000					
Other investment balances	1,347					-38
					20,372	
	4,030,058				185,943	4,288,647

Having taken advice from its fund manager, the Fund had chosen to reclassify its two Darwin assets from Property Funds to Private Equity in 2018/19.

	Market value at 31 Mar 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2018
	£000	£000	£000	£000	£000
Bonds	583,327	304,323	-283,524	-2,918	601,208
Equities	2,288,136	1,938,482	-1,845,436	32,552	2,413,734
Property unit trusts	275,367	88,284	-54,202	12,288	321,737
Diversified growth	390,257	2,327	0	1,704	394,288
Private equity	145,228	53,184	-50,680	8,050	155,782
Derivatives					
- Futures		311	-406	95	
- Forex contracts	-45	28,423	-68,141	41,089	1,326
	3,682,270	2,415,334	-2,302,389	92,860	3,888,075
Cash	117,498				80,636
Other Short Term Investments	42,000				60,000
Other investment balances	3,344				1,347
				5,802	
	3,845,112			98,662	4,030,058

Note 17b: Analysis of investments

	31 Mar 2018	31 Mar 2019	
	£000s	£000s	
Fixed interest securities			
UK public sector & quoted	205,115	211,246	Level 2
Overseas pooled fund	396,093	495,283	Level 1
	601,208	706,529	
Equities			
UK quoted	605,423	219,113	Level 1
UK pooled funds	418,042	492,713	Level 1
Overseas quoted	320,896	309,803	Level 1
Overseas pooled funds	1,069,373	1,468,177	Level 1/2
	2,413,734	2,489,806	
Property unit trusts			
UK property funds	279,879	206,301	Level 2/3
Overseas property funds	41,858	76,939	Level 2/3
	321,737	283,240	
Diversified growth			
Overseas diversified growth funds	394,288	402,589	Level 1
	394,288	402,589	
Private equity			
UK limited partnerships	22,717	104,877	Level 3
Overseas limited partnerships	41,411	51,366	Level 3
Overseas fund of funds	91,654	99,721	Level 3
	155,782	255,964	
Derivatives			
FX forward contracts	1,326	-123	Level 2
	1,326	-123	
Cash deposits	80,636	150,680	Level 1
Other short term investments	60,000	0	
Other investment balances			
Outstanding sales	357	1,137	Level 2
Outstanding purchases	-3,393	-3,444	Level 2
Accrued income - dividends and interest	4,383	2,269	Level 2
	1,347	-38	
Total investments	4,030,058	4,288,647	

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. As at 31 March 2019 the fund had no future contracts in place. At 31 March 2018 the fund had no future contracts in place

Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2019 the Fund had forward currency contracts in place with a net unrealised loss of -£123k (net unrealised gain of £1,327k at 31 March 2018).

2018/19		Contract settlement date within		Currency		Notional amount (local currency)		Asset	Liability
No of contracts		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000		
1	One Month	GBP	JPY	143	-20,803	0			-1
2	One Month	JPY	GBP	99,626	-685	6			0
3	Three Months	GBP	JPY	77,360	-11,150	0			-78
3	Three Months	GBP	EUR	149,652	-171,767	1,323			0
7	Three Months	GBP	USD	442,232	579,813	0			-1,373
						1,329	-1,452		

2017/18		Contract settlement date within		Currency		Notional amount (local currency)		Asset	Liability
No of contracts		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000		
1	One Month	GBP	JPY	137	-20,650	0			0
5	Two Months	GBP	EUR	118,450	-134,064	702			0
5	Two Months	GBP	JPY	66,837	-9,954,387	19			0
8	Two Months	GBP	USD	374,615	-525,891	606			0
						1,327	0		

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2018/19 the fund operated a stock lending programme in partnership with the fund custodian. As at 29 March 2019 (the last working day) the value of quoted securities on loan was £53.8 million in exchange for collateral held by the fund custodian at fair value of £57.9 million

Note 17d: Investments analysed by fund manager

Following on from Central Government's proposal for Local Authorities to pool their pension assets into regional asset pools, Border to Coast Pensions Partnership (BCPP) was established in 2018, of which Surrey is a partner fund. Surrey Pension Fund had transitioned its first asset into the BCPP UK Equity Alpha Fund in November 2018, and will continue to transition more of its active assets over the coming years.

Investments managed within Border to Coast Pensions Partnership Ltd;

Market value 31 March 2018		Manager	Market value 31 March 2019	
£000	%		£000	%
0	0.0	Border to Coast UK Equity Alpha	464,200	11.1
0			464,200	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	%		£000	%
1,151,591	28.6	Legal & General Investment Management (LGIM)	1,190,723	28.3
373,811	9.3	Majedie Asset Management	243,621	5.8
311,993	7.7	UBS Asset Management	0	0
498,553	12.4	Marathon Asset Management	505,222	12.0
317,106	7.9	Newton Investment Management	333,760	7.9
322,509	8.0	Western Multi Asset Credit	422,967	10.1
73,663	1.8	Franklin Templeton Investments	72,316	1.7
150,596	3.7	Baillie Gifford Life Limited	161,151	3.8
260,170	6.5	CBRE Global Multi-Manager	287,636	6.8
122,576	3.0	Ruffer	121,748	2.9
121,117	3.0	Aviva	119,691	2.8
3,703,685			3,458,835	
3,703,685			3,923,035	

The table above excludes the private equity portfolio as well as internal cash held within the Fund.

The following investments represent more than 5% of the net assets of the fund

Market value 31 March 2018		Security	Market value 31 March 2019	
£000	%		£000	%
494,553	12.2	Marathon Global Contractual Fund	501,089	11.6
114,467	2.8	LGIM - TLCV Bespoke (34048)	492,637	11.4
0	0	Border to Coast UK Equity Alpha	464,200	10.8
322,431	8.0	Western Multi-Asset Credit EUR AC	422,967	9.8
0	0	LGIM – MSCI World Low Carbon	352,109	8.2
0	0	LGIM – Rafi Multi Factor	345,977	8.0
496,453	12.2	LGIM World Developed Equity Index	0	0
376,553	9.3	Legal & General UK Equity Index	0	0
1,804,457			2,578,979	

Note 18: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierachy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled Investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Not required
Pooled Investments - Hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Unquoted Equities	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
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Note 18a: Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed Valuation Range (+/-) %	Value at 31 March 2019 £000	Value on Increase £000	Value on Decrease £000
Private Equity	10%	255,964	281,560	230,368
Property funds	10%	142,704	156,974	128,433
Total		398,668	438,434	358,801

a) All movements in the assessed valuation range derive from changes to the value of the financial instrument being hedged against.

b) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 16 above) produce different price results

Note 18b: Reconciliation of Fair Value Measurements within Level 3

	Market value at 31 Mar 2018	Transfers in/ out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2019
	£000	£000	£000	£000	£000	£000
Equities	2,904	132	0	-2,591	-445	0
Property unit trusts	64,859	68,913	18,813	-20,416	10,535	142,704
Private equity	155,782	60,000	38,418	-51,286	53,050	255,964
	223,545	129,045	57,231	-74,293	63,140	398,668

Note 18c: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2018

As at 31 March 2019

Designated as fair value though profit and loss	Financial assets at amortised cost	Financial liabilities at amortised costs	Designated as fair value though profit and loss	Financial assets at amortised cost	Financial liabilities at amortised costs
£000	£000	£000	£000	£000	£000
			Financial assets		
601,208			Bonds	706,529	
2,413,734			Equities	2,489,806	
321,737			Property unit trusts	283,240	
394,288			Diversified growth	402,589	
155,782			Private equity	255,964	
1,327			Derivatives	1,329	
	80,636		Cash		150,680
	60,000		Other short term investments		
4,740			Other investment balances	3,407	
	37,121		Debtors		36,085
3,892,816	177,757		Total financial assets	4,142,864	186,765

			Financial liabilities		
-1			Derivatives	-1,452	
-3,393			Other investment balances	-3,445	
		-11,296	Creditors		-9,154
			Borrowings		
-3,394		-11,296	Total financial liabilities	-4,897	-9,154
3,889,422	177,757	-11,296		4,137,967	186,765
					-9,154

Note 18d: Net gains and losses on financial instruments

31 March 2018		31 March 2019
£000		£000
	Financial Assets	
92,860	Designated at Fair Value through profit and loss	196,397
5,802	Loans and Receivables	20,210
	Financial Liabilities	
0	Fair Value through profit and loss	-30,826
0	Financial liabilities at amortised cost	
98,662	Total	185,781

Note 18e: Fair Value Hierarchy

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
31 March 2019				
Financial assets at Fair Value	2,420,590	1,332,588	398,668	4,151,846
Loans and Receivables	52,520	1,230	0	53,750
Financial Liabilities at Fair Value	0	-4,897	0	-4,897
Net financial assets	2,473,110	1,328,921	398,668	4,200,699

As per the advice of Legal & General Investment Management (LGIM), The Fund had chosen to reclassify its passive assets held as at 31 March 2019, from Level 1 to Level 2 investments. The value of the Fund's passive assets as at 31 March 2019 was £1.191bn, which had all been reclassified as Level 2.

31 March 2018	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at Fair Value	3,462,847	206,021	223,545	3,892,413
Loans and Receivables	48,061	3,367	0	51,428
Financial Liabilities at Fair Value	0	-3,393	0	-3,393
Net financial assets	3,510,908	205,995	223,545	3,940,448

Note 18f: Book cost

The book cost of all investments at 31 March 2019 is £3,164million (£3,055million at 31 March 2018).

Note 19: Outstanding commitments

At 31 March 2019 the Fund held part paid investments on which the liability for future calls amounted to £195.1million (£127million as at 31 March 2018)

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

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken

external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis

PIRC Ltd has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2018/19 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2019 £000	Change	Value on increase £000	Value on decrease £000
UK equities	711,826	9.90%	782,308	641,344
Overseas equities	1,777,980	9.28%	1,942,938	1,613,022
Bonds	495,283	4.06%	515,368	475,198
Index-linked	211,246	9.81%	231,966	190,526
Cash	150,680	0.50%	151,433	149,927
Other short term investments	0	0.50%	0	0
Property	283,240	4.33%	295,504	270,976
Alternatives	255,964	6.01%	271,348	240,580

Diversified growth fund	402,589	4.14%	419,244	385,934
Other assets	-161	0.50%	-162	-160
Total Investment Assets	4,288,647	4.60%	4,485,771	4,091,523

Asset type	Value at 31 March 2018 £000	Change	Value on increase £000	Value on decrease £000
UK equities	1,023,466	9.35%	1,119,188	927,744
Overseas equities	1,390,269	9.54%	1,522,927	1,257,611
Bonds	396,093	4.38%	413,439	378,747
Index-linked	205,115	10.00%	225,627	184,604
Cash	80,636	0.03%	80,663	80,609
Other short term investments	60,000	0.03%	60,020	59,980
Property	321,737	3.46%	332,866	310,608
Alternatives	155,782	6.61%	166,079	145,485
Diversified growth fund	394,288	3.74%	409,037	379,539
Other assets	2,625	0.03%	2,626	2,624
Total Investment Assets	4,030,011	6.01%	4,272,248	3,787,774

(1) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2018		As at 31 March 2019	
£000		£000	
80,636	Cash & cash equivalents	150,680	
60,000	Other short term investments	0	
396,093	Fixed interest securities	495,283	
536,729	Total	645,963	

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 2019	Change in net assets	
		+100 bps	- 100 bps
		£000	£000
Cash & cash equivalents	150,680	1,507	-1,507
Other short term investments	0	0	0
Fixed interest securities	495,283	4,953	-4,953
Total	645,963	6,460	-6,460

Asset type	Carrying amount as at 31 March 2018	Change in net assets	
		+100 bps	- 100 bps
		£000	£000
Cash & cash equivalents	80,636	81	-81
Other short term investments	60,000	60	-60
Fixed interest securities	396,093	396	-396
Total	536,729	537	-537

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency

other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

Currency risk – sensitivity analysis

PIRC Ltd has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2018/19 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2019 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,479,276	11.54%	1,649,999	1,308,553
Fixed interest	495,283	11.54%	552,443	438,123
Property and Private Equity	228,026	11.54%	254,342	201,710
Diversified Growth	402,589	11.54%	449,052	356,126
Cash and Other Assets	14,026	11.54%	15,645	12,407
Total	2,619,200	11.54%	2,921,481	2,316,919

Asset type	Value at 31 March 2018 £000	% Change	Value on increase £000	Value on decrease £000
Equities	877,881	4.93%	921,173	834,589
Fixed interest	396,093	4.93%	415,626	376,560
Property and Private Equity	174,923	4.93%	183,549	166,297
Diversified Growth	394,288	4.93%	413,732	374,844
Cash and Other Assets	7,397	4.93%	7,762	7,032
Total	1,850,582	4.93%	1,941,842	1,759,322

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund held no fixed term deposits with other Local Authorities as at 31 March 2019.

Fixed Term Deposits	No. of days	Balance at 31 March 2019 £000
Other short term investments		0

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

Balance at 31 March 2018 £000		Balance at 31 March 2019 £000
	Call account	
20,000	Lloyds	19,000
	Money market fund	
4,000	Goldman Sachs	25,000
5,500	Aberdeen MMF	25,000
	Current account	
64	HSBC	18,948
29,564	Internally Managed Cash	87,948
51,072	Externally Managed Cash	62,732
80,636	Total Cash	150,680

The fund's cash holding under its treasury management arrangements as at 31 March 2019 was £87.9million (£29.6million at 31 March 2018).

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2017/18 or 2018/19

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers, given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2018/19 amounted to £63,982k (£62,796k in 2017/18).

2017/2018		2018/2019
£000		£000
41,031	Employers' current service contributions	41,466
21,286	Lump sum payments to recover the deficit in respect of past service	21,299
479	Payments into the fund to recover the additional cost of early retirement liabilities	1,217
<u>62,796</u>		<u>63,982</u>

ii) Surrey Pension Fund paid Surrey County Council £2,136k for services provided in 2018/19 (£1,847k in 2017/18).

2017/2018		2018/2019
£000		£000
221	Treasury management, accounting and managerial services	307
1,626	Pension administration services	1,829
<u>1,847</u>		<u>2,136</u>

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2019 were £4,619k (£5,218k at 31 March 2018).

Note 22: Key management personnel

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

2017/18 £	Position	2018/19 £	
0	Director of Resources	25,356	1
24,109	Director of Corporate Finance	26,485	1
80,681	Head of Pensions	91,202	2
25,398	Senior Specialist Advisor	23,599	2
49,059	Senior Accountant	54,956	2
<u>179,247</u>		<u>221,598</u>	

2018/19

1. 15% of time allocated to pension fund
2. 100% of time allocated to pension fund

Note 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

Private Equity Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York Mellon
Livingbridge (Formerly ISIS)	Lloyds Banking Group
SL Capital	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America
Pantheon	State Street Bank & Trust Co. NA New York
Glennmont Partners	Augentius (Luxembourg) S.A.

Note 24: Actuarial statement for 2018/19 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.5 years	24.6 years
Future Pensioners*	24.1 years	26.4 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

2 May 2019

Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31/03/2019	31/03/2018
Active members (£m)	3,148	2,559
Deferred members (£m)	1,523	1,359
Pensioners (£m)	1,923	1,921
	6,594	5,839

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The figures also include an approximate allowance for the impact of GMP equalisation.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the

change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £491m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.8%	2.7%
Discount Rate	2.4%	2.7%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 Years	24.6 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 Years	26.4 Years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	549
0.5% p.a. increase in the Salary Increase Rate	1%	87
0.5% p.a. decrease in the Real Discount Rate	10%	676

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies our covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions. This replaces our paper dated 30 April 2019, as this now includes allowance for the "McCloud ruling" and GMP equalisation.

Gemma Sefton FFA (For and on behalf of Hymans Robertson LLP)

9 July 2019

Note 26: Additional Voluntary Contributions

Market Value 2017/18 £000	Position	Market Value 2018/19 £000
13,621	Prudential	14,520
<u>13,621</u>		<u>14,520</u>

Additional Voluntary Contributions, net of returned payments, of £2.6million were paid directly to Prudential during the year (£2.8million during 2017/18).

Note 27: Investment Strategy Statement

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

Note 28: Annual report

The Surrey Pension Fund Annual Report 2018/2019 provides further details on the management, investment performance and governance of the Fund.