

# **SURREY PENSION FUND ACCOUNTS 2020/2021**

## Surrey Pension Fund - Fund account

2019/20		2020/21
£000	Note	£000
<b>Contributions and benefits</b>		
186,625	Contributions receivable	195,173
11,082	Transfers in	12,727
<b>197,707</b>		<b>207,900</b>
(161,643)	Benefits payable	(160,022)
(15,339)	Payments to and on account of leavers	(14,465)
<b>176,982</b>		<b>174,487</b>
<b>20,725</b>	<b>Net additions from dealings with members</b>	<b>33,413</b>
(12,431)	Investment and governance expenses	(10,106)
(2,270)	Administration expenses	(2,449)
<b>(14,701)</b>		<b>(12,555)</b>
<b>6,024</b>	<b>Net additions including fund management expenses</b>	<b>20,858</b>
<b>Return on investments</b>		
51,320	Investment income	25,564
(551)	Taxes on income	(859)
(512,885)	Change in market value of investments	995,877
<b>(462,116)</b>	<b>Net return on investments</b>	<b>1,020,582</b>
<b>(456,092)</b>	<b>Net increase in the fund during the year</b>	<b>1,041,440</b>
<b>Closing Net Assets of the Scheme</b>		
4,315,578	At 1 April (Opening)	3,921,681
<b>3,859,486</b>	<b>At 31 March (Closing)</b>	<b>4,963,121</b>

## Surrey Pension Fund - Net asset statement

31 Mar 2020	Note	31 Mar 2021
£000		£000
	17	
<b>661,248</b>	Bonds	<b>792,692</b>
<b>2,090,123</b>	Equities	<b>2,992,053</b>
<b>280,413</b>	Property unit trusts	<b>266,256</b>
<b>394,217</b>	Diversified growth	<b>455,222</b>
<b>305,912</b>	Private equity	<b>337,731</b>
	17c	
<b>1,905</b>	- Foreign exchange contracts	<b>4,448</b>
<b>130,996</b>	Cash	<b>107,323</b>
	Other short term investments	
<b>3,590</b>	Other investment balances	<b>6,173</b>
<b>3,868,404</b>	<b>Total investment assets</b>	<b>4,961,898</b>
	17c	
<b>(40,336)</b>	- Foreign exchange contracts	<b>(11,677)</b>
<b>(2,114)</b>	Other investment balances	<b>(4,669)</b>
	17b	
	Borrowings	
<b>3,825,954</b>	<b>Net investment assets</b>	<b>4,945,552</b>
<b>3,630</b>	Long-term debtors	<b>1,815</b>
<b>36,277</b>	Current assets	<b>35,311</b>
<b>(6,375)</b>	Current liabilities	<b>(19,557)</b>
<b>3,859,486</b>	<b>Net assets of the scheme available to fund benefits at the reporting period end</b>	<b>4,963,121</b>

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.

#### Border to Coast Pensions Partnership

In the July 2015 Budget, the Chancellor announced the Government's intention to work with the LGPS administering authorities with the goal to transition assets into larger asset pools, increasing buying power, economies of scale amongst other benefits. Border to Coast Pensions Partnership (BCPP) was established in 2018, as a joint partnership between 12 Local Government Pension Schemes, including Surrey Pension Fund.

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 2020 and 31 March 2021 are:

<b>Surrey Pension Fund</b>	<b>31 Mar 2020</b>	<b>31 Mar 2021</b>
<b>Total Number of Employers</b>	<b>282</b>	<b>304</b>
<b>Employees in the Scheme</b>		
Surrey County Council	17,133	17,628
Other Employers	18,325	19,221
<b>Total</b>	<b>35,458</b>	<b>36,849</b>
<b>Pensioners</b>		
Surrey County Council	13,483	14,100
Other Employers	13,761	14,243
<b>Total</b>	<b>27,244</b>	<b>28,343</b>
<b>Deferred Pensioners</b>		
Surrey County Council	29,991	27,037
Other Employers	18,621	17,025
<b>Total</b>	<b>48,612</b>	<b>44,062</b>
<b>Total Number of Members</b>	<b>111,314</b>	<b>109,254</b>

#### b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Regulations 2013 'as disclosed in the introduction and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019 and new rates applied from April 2020. Currently employer contribution rates range from 12.7% to 43.6% 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.

	<b>Service pre 1 April 2008</b>	<b>Service 1 April 2008 until 31 March 2014</b>
Basis of pension	1/80 <sup>th</sup> of final salary	1/60 <sup>th</sup> 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.

	<b>Service 1 April 2008 until 31 March 2014</b>	<b>LGPS 2014 scheme</b>
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60 <sup>th</sup> of salary	1/49 <sup>th</sup> 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 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement	1/160 <sup>th</sup> 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
<b>Pre 2014 employee contribution rates</b>		<b>LGPS 2014 employee contribution rates for 2020/21</b>

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%

Pensionable payroll banding	Contribution rate
Up to £14,600	5.5%
£14,601 to £22,800	5.8%
£22,801 to £37,100	6.5%
£37,101 to £46,900	6.8%
£46,901 to £65,600	8.5%
£65,601 to £93,000	9.9%
£93,001 to £109,500	10.5%
£109,501 to £164,200	11.4%
More than £164,201	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website or the LGPS 2014 scheme website

## **Note 2: Basis of preparation**

The Statement of Accounts summarises the fund's transactions for the 2020/21 financial year and its position at the year end at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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 2020/21.

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 2021 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

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. This has led to the creation of eight asset pools in the UK, and Surrey Pension Fund, along with 11 other funds, is now a partner fund of Border to Coast Pensions Partnership. Each Partner Fund had invested in Class A and B Shares at a cost (transaction price) of £1 and £833,333 respectively. This investment has been valued at cost and will continue to be, as the fair value of these assets cannot be reliably estimated. More information on this can be found in Note 4.

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) Financial Assets**

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**

##### **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.

An 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 of Class A Shares & B Shares in Border to Coast Pensions Partnership**

This investment has been valued at cost on the basis that fair value as at 31 March 2021 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd is intending to trade at a break even position (no/minimal profit or loss) with any values off-set against Partner Fund future costs. The company have now published a set of full year audited accounts and these show the company equity as equal to the 'Called up Share Capital' i.e. Class B Regulated Capital of £10m (shared equally between the twelve partner fund).
- They will always use a cost based methodology.
- The shares will never be traded externally

#### **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 2021 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 decrease liabilities by £747m</p> <p>a +0.5% increase in Salary Increase Rate will decrease liabilities by £61m</p> <p>a +0.5% increase in the Discount Rate will decrease liabilities by £824m</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. These are usually classified as Level 3 Investments	The total private equity investments in the financial statement are £337.7 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund These investments are not publicly listed and as such there is a degree of estimation involved in the valuation using best available dates of valuation. These are usually classified as Level 3 Investments	The total private equity fund of fund investments are £130.6 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments
COVID-19 Outbreak	Due to considerable market volatility from March 2020 leading into 31 March 2021, there has been additional material uncertainty regarding the Fund's investment valuations, specifically its private	The Fund will request updated valuations from its fund managers where possible, and will make the necessary amendments to the Accounts, if they are seen to be material

	<p>equity and pooled property investments. With their nature being illiquid assets, there has not been a direct correlation on the market value of these assets in comparison to public markets, as a result of COVID-19</p> <p>Property valuers of pooled property funds have indicated that values are likely to fall and they can attach less weight to previous market evidence to inform market opinions. There have been adverse effect on stock markets, growth forecasts and business confidence, which means rental and capital values may change rapidly in the investment property market</p> <p>The above applies similarly to private equity, specifically uncertainty regarding future economic growth forecasts, and business confidence. There is also additional uncertainty of future cashflow forecasts of these private equity assets, resulting in a reduced level of certainty that can be attached to the valuation of these investments.</p>	
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**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:**

2019/20

2020/21

<b>£000</b>		<b>£000</b>
<b>39,470</b>	<b>Total Employees' Contributions</b>	<b>44,332</b>
	<b>Employers' Contributions:</b>	
104,583	Normal Contributions	111,413
	Augmentation Contributions	
<b>42,572</b>	<b>Employers deficit</b>	<b>39,428</b>
<b>147,155</b>	<b>Total Employers' Contributions</b>	<b>150,841</b>
<b>186,625</b>		<b>195,173</b>

**By Authority:**

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
84,191	Administering authority	82,695
93,981	Scheduled bodies	104,196
<b>8,453</b>	Admitted bodies	<b>8,282</b>
<b>186,625</b>		<b>195,173</b>

The latest actuarial valuation carried out as at 31 March 2019, set contribution rates for fund employers with effect from April 2020. The financial year 2020/2021 is the first year of the revised employer contribution rates.

**Note 8: Transfers in from other pension funds**

<b>2019/20</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
<b>11,082</b>	Individual transfers in from other schemes	<b>12,727</b>
<b>11,082</b>		<b>12,727</b>

**Note 9: Benefits payable**

By category

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
134,183	Pensions	139,089
23,829	Commutation and lump sum retirement benefits	16,569

3,539	Lump sum death benefits	4,267
92	Interest on late payment of benefits	97
<b>161,643</b>		<b>160,022</b>

By employer

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
77,586	Administering Authority	74,978
70,730	Scheduled Bodies	72,285
13,327	Admitted Bodies	12,758
<b>161,643</b>		<b>160,022</b>

**Note 10: Payments to and on account of leavers**

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
14,844	Group transfers to other schemes	13,983
503	Refunds of contributions	493
(8)	Payments for members joining state schemes	(11)
<b>15,339</b>		<b>14,465</b>



**Note 11: Current assets**

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
2,938	Contributions – employees	2,600
8,842	Contributions – employer	6,898
<u>24,497</u>	Sundry debtors	<u>25,813</u>
<b><u>36,277</u></b>		<b><u>35,311</u></b>

## Analysis of current assets

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
5,073	Central government bodies	2,436
25,519	Other local authorities	27,519
<u>5,685</u>	Other entities and individuals	<u>5,356</u>
<b><u>36,277</u></b>		<b><u>35,311</u></b>

**Note 12: Long term debtors**

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
<u>3,630</u>	Central government bodies	<u>1,815</u>
<b><u>3,630</u></b>		<b><u>1,815</u></b>

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 2021 is £3.630m but £1.815m was due in 2020/21, leaving a long term debtor of £1.815m.

**Note 13: Current liabilities**

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
6,061	Sundry creditors	19,208
<u>314</u>	Benefits payable	<u>348</u>
<b><u>6,375</u></b>		<b><u>19,557</u></b>

## Analysis of current liabilities

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
908	Central government bodies	610
3,141	Other local authorities	14,429
<u>2,326</u>	Other entities and individuals	<u>4,518</u>
<b><u>6,375</u></b>		<b><u>19,557</u></b>

**Note 14: Investment and governance expenses**

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
10,427	Investment management fees	7,506
85	Investment custody fees	112
1,919	Oversight and governance costs	2,489
<u>12,431</u>		<u>10,106</u>

The investment management fees includes £611k in respect of transaction costs (2019/20: £612k).

As part of its oversight and governance costs in 2020/21, the fund had also spent £1.4m in respect of pooling costs as part of Surrey Pension Fund's ongoing transition into the Border to Coast Pensions Partnership (BCPP)

**Note 15: External Audit Costs**

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
42	Payable in respect of external audit	36
<b>42</b>		<b>36</b>

**Note 16: Investment income**

<b>2019/20</b>		<b>2020/21</b>
<b>£000</b>		<b>£000</b>
	<b>Bonds</b>	
	UK	
5,529	Overseas	2,619
	<b>Equities</b>	
9,264	UK	3,565
19,286	Overseas	7,657
13,231	Property unit trusts	7,214
2,166	Diversified growth	1,044
1,457	Private equity	3,110
302	Interest on cash deposits	298
85	Other	57
<b>51,320</b>		<b>25,564</b>

**Note 17a: Reconciliation of movements in investments and derivatives 2020/21**

	Market value at 31 Mar 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2021
	£000	£000	£000	£000	£000
Bonds	661,248	72,619	0	58,826	792,692
Equities	2,090,124	754,998	(680,491)	827,422	2,992,053
Property unit trusts	280,412	7,457	(9,864)	(11,749)	266,256
Diversified growth	394,217	1,491	0	59,514	455,222
Private equity	305,912	90,485	(51,768)	(6,898)	337,731
Derivatives					
- Futures	0				0
- Forex contracts	(38,431)	64,483	(102,041)	68,763	(7,226)
	<b>3,693,482</b>	<b>991,534</b>	<b>(844,164)</b>	<b>995,877</b>	<b>4,836,728</b>
Cash	130,996				107,323
Other Short Term Investments					
Other investment balances	1,476				1,505
Other Fund Movements					
	<b>3,825,954</b>			<b>995,877</b>	<b>4,945,556</b>

**Note 17a: Reconciliation of movements in investments and derivatives 2019/20**

	Market value at 31 Mar 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2020
	£000	£000	£000	£000	£000
Bonds	706,529	5,525		(50,806)	661,248
Equities	2,489,806	1,110,692	(1,088,114)	(422,260)	2,090,124
Property unit trusts	283,240	64,376	(56,096)	(11,108)	280,412
Diversified growth	402,589	2,607	0	(10,979)	394,217
Private equity	255,964	64,769	(42,561)	27,740	305,912
Derivatives					
- Futures	0				0
- Forex contracts	(123)	73,771	(72,332)	(39,747)	(38,431)
	<b>4,138,005</b>	<b>1,321,740</b>	<b>(1,259,103)</b>	<b>(507,160)</b>	<b>3,693,482</b>
Cash	150,680				130,996
Other Short Term Investments					
Other investment balances	(38)				1,476
Other Fund Movements				(5,725)	
	<b>4,288,647</b>			<b>(512,885)</b>	<b>3,825,954</b>

## Note 17b: Analysis of investments

	31 Mar 2020	31 Mar 2021	
	£000s	£000s	
<b>Fixed interest securities</b>			
UK public sector & quoted	216,201	193,930	Level 2
Overseas pooled fund	445,047	598,762	Level 1
	<b>661,248</b>	<b>792,692</b>	
<b>Equities</b>			
UK quoted	174,990	50,947	Level 1
UK pooled funds	385,440	523,858	Level 1
Overseas quoted	302,373	388,632	Level 1
Overseas pooled funds	1,227,320	2,028,614	Levels 1 & 2
	<b>2,090,123</b>	<b>2,992,053</b>	
<b>Property unit trusts</b>			
UK property funds	196,394	178,529	Levels 2 & 3
Overseas property funds	84,019	87,727	Levels 2 & 3
	<b>280,413</b>	<b>266,256</b>	
<b>Diversified growth</b>			
Overseas diversified growth funds	394,217	455,222	Level 1
	<b>394,217</b>	<b>455,222</b>	
<b>Private equity</b>			
UK limited partnerships	110,636	123,836	Level 3
Overseas limited partnerships	87,894	83,316	Level 3
Overseas fund of funds	107,381	130,580	Level 3
	<b>305,912</b>	<b>337,732</b>	
<b>Derivatives</b>			
FX forward contracts	(38,431)	(7,226)	Level 2
	<b>(38,431)</b>	<b>(7,226)</b>	
<b>Cash deposits</b>	<b>130,996</b>	<b>107,323</b>	Level 1
<b>Other short term investments</b>			
<b>Other investment balances</b>			
Outstanding sales	1,347	4,302	Level 2
Outstanding purchases	(2,114)	(4,669)	Level 2
Tax due on accrued income	1,475	1,090	Level 1
Accrued income - dividends and interest	768	781	Level 1
	<b>1,476</b>	<b>1,505</b>	
<b>Total investments</b>	<b>3,825,954</b>	<b>4,945,556</b>	

## Note 17c: Analysis of derivatives

### 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 2021 the Fund had forward currency contracts in place with a net unrealised loss of (£7.2m) (net unrealised loss of (£38.4m) at 31 March 2020).

2020/21							
No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
4	Three Months	GBP	EUR	159,996	(185,028)	2,208	0
5	Three Months	GBP	JPY	80,126	(11,869,700)	2,240	0
6	Three Months	GBP	USD	589,701	(829,869)	0	(11,677)
						<b>4,448</b>	<b>(11,677)</b>

2019/20							
No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
2	One Month	GBP	EUR	291	(328)	0	0
1	One Month	GBP	JPY	25	(3,319)	0	0
1	One Month	GBP	USD	14,622	(17,214)	744	0
1	One Month	USD	GBP	1,838	(1,490)	0	0
1	Three Months	JPY	GBP	496,500	(3,483)	231	0
2	Three Months	GBP	JPY	82,348	(11,768,100)	0	(5,696)
1	Three Months	USD	GBP	19,289	(14,622)	930	0
3	Three Months	GBP	EUR	161,914	(19,317)	0	(9,225)
7	Three Months	GBP	USD	533,601	693,926	0	(25,408)
						<b>1,905</b>	<b>(40,329)</b>

### Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2020/21 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 2021 the value of quoted securities on loan was £22.8 million in exchange for collateral held by the fund custodian at fair value of £24.2 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 into the BCPP Global Equity Alpha Fund in September 2019, 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 2020		Manager	Market value 31 March 2021	
£000	%		£000	%
364,115	9.4	Border to Coast UK Equity Alpha	523,858	10.5
446,212	11.6	Border to Coast Global Equity Alpha	662,732	13.3
<b>810,327</b>			<b>1,186,190</b>	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	%		£000	%
		Legal & General Investment Management (LGIM)		32.3
1,000,839	25.9		1,606,657	
192,295	5.0	Majedie Asset Management	0	0
327,631	8.5	Newton Investment Management	446,941	9.0
379,937	9.8	Western Multi Asset Credit	533,867	10.7
65,110	1.7	Franklin Templeton Investments	64,896	1.3
147,141	3.8	Baillie Gifford Life Limited	173,222	3.5
288,479	7.5	CBRE Global Multi-Manager	283,258	5.7
125,886	3.3	Ruffer	152,142	3.1
121,190	3.1	Aviva	129,858	2.6
2,648,508			3,390,841	
<b>3,458,835</b>			<b>4,577,031</b>	

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



Market value 31 March 2020		Security	Market value 31 March 2021	
£000	%		£000	%
235,681	6.1	LGIM - TLCV Bespoke (34048)	263,058	5.3
364,115	9.4	Border to Coast UK Equity Alpha	523,858	10.5
446,212	11.6	Border to Coast Global Equity Alpha	662,732	13.3
379,937	9.8	Western Multi-Asset Credit EUR AC	533,867	10.7
335,219	8.7	LGIM – MSCI World Low Carbon	483,983	9.7
305,439	7.9	LGIM – Rafi Multi Factor	438,570	8.8
0		LGIM World Emerging Markets Fund	310,292	6.2
<b>2,066,603</b>			<b>3,216,360</b>	

## 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 Hierarchy	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 & 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
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

Unquoted Equities	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i>	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 cash flows, 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 2010. With the outbreak of COVID-19 and the illiquid nature of the Fund's Level 3 investments, the Fund is still satisfied with the below sensitivity range,

	Assessed Valuation Range (+/-)	Value at 31 March 2021	Value on Increase	Value on Decrease
	%	£000	£000	£000
Private Equity	10%	337,731	371,505	303,958
Property funds	10%	118,168	129,985	106,351
<b>Total</b>		<b>445,899</b>	<b>501,489</b>	<b>410,309</b>

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 17 above) produce different price results

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

	Market value at 31 Mar 2020	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 2021
	£000	£000	£000	£000	£000	
Property unit trusts	132,022	0	3,974	(9,178)	(8,650)	118,168
Private equity	305,912	0	90,485	(51,768)	(6,898)	337,731
	437,934	0	94,459	(60,946)	(15,548)	455,899

### 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 2020

#### As at 31 March 2021

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
<b>Financial assets</b>					
661,248			Bonds	792,692	
2,090,124			Equities	2,992,053	
280,412			Property unit trusts	266,256	
394,217			Diversified growth	455,222	
305,912			Private equity	337,731	
1,905			Derivatives	4,448	
	130,996		Cash		107,323

		Other short term investments		
3,590		Other investments	6,173	
	39,907	Debtors		37,126
<b>3,735,503</b>	<b>170,903</b>	<b>Total financial assets</b>	<b>4,854,575</b>	<b>144,449</b>
		<b>Financial liabilities</b>		
(38,431)		Derivatives	(7,226)	
(2,114)		Other investment balances	(4,669)	
	(6,375)	Creditors		(19,557)
		Borrowings		
<b>(40,545)</b>	<b>(6,375)</b>	<b>Total financial liabilities</b>	<b>(11,895)</b>	<b>(19,557)</b>
<b>3,694,958</b>	<b>170,903</b>	<b>(6,375)</b>	<b>4,842,680</b>	<b>144,449</b>
				<b>(19,557)</b>

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#### Note 18d: Net gains and losses on financial instruments

31 March 2020		31 March 2021
£000		£000
	<b>Financial Assets</b>	
(467,439)	Designated at Fair Value through profit and loss	927,090
	Loans and Receivables	62,516
	<b>Financial Liabilities</b>	
(39,741)	Fair Value through profit and loss	68,754
(5,695)	Loans and Receivables	(302)
<b>(512,885)</b>	<b>Total</b>	<b>995,604</b>

#### Note 18e: Fair Value Hierarchy

31 March 2021	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	
Financial assets at Fair Value	2,711,697	1,763,526	461,880	4,937,102
Loans and Receivables	0	0	0	0
Financial Liabilities at Fair Value	0	(16,346)	0	(16,346)

<b>Net financial assets</b>	<b>2,711,697</b>	<b>1,747,180</b>	<b>461,880</b>	<b>4,920,756</b>
<b>31 March 2020</b>	<b>Quoted market price Level 1</b>	<b>Using observable inputs Level 2</b>	<b>With significant unobservable inputs Level 3</b>	<b>Total</b>
	£000	£000	£000	£000
Financial assets at Fair Value	2,148,280	1,151,134	437,934	3,737,348
Loans and Receivables	47,067	1,366	0	48,433
Financial Liabilities at Fair Value	0	(42,450)	0	(42,450)
<b>Net financial assets</b>	<b>2,195,347</b>	<b>1,110,050</b>	<b>437,934</b>	<b>3,743,331</b>

#### **Note 18f: Book cost**

The book cost of all investments at 31 March 2021 is £3,429million (£3,235 million at 31 March 2020).

#### **Note 19: Outstanding commitments**

At 31 March 2021 the Fund held part paid investments on which the liability for future calls amounted to £296million (£378.5million as at 31 March 2020)

#### **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

Asset type	Value at 31	Change	Value on	Value on
	March 2021		increase	decrease
	£000	%	£000	£000
UK equities	574,805	18.7	682,035	467,575
Overseas equities	2,417,248	13.1	2,733,937	2,100,559
Bonds	598,763	8.3	648,460	549,066
Index-linked	193,930	8.3	210,066	177,794
Cash	107,323	2.2	109,687	104,959
Property	266,256	4.7	278,808	253,704
Private Equities	337,732	5.0	354,632	320,832
Diversified growth fund	455,222	6.3	484,021	426,423
Other assets	-5,721	2.2	(5,847)	(5,595)
<b>Total Investment Assets</b>	<b>4,945,558</b>	<b>10.4</b>	<b>5,458,438</b>	<b>4,432,678</b>

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 2020/21 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 year

Asset type	Value at 31	Change	Value on	Value on
	March 2020		increase	decrease
	£000	%	£000	£000
UK equities	560,430	21.3	679,802	441,058
Overseas equities	1,529,693	16.8	1,786,681	1,272,705
Bonds	445,047	10.2	490,442	399,652
Index-linked	216,201	6.5	230,254	202,148
Cash	130,996	2.1	133,811	128,181
Property	280,413	5.4	295,482	265,344
Alternatives	305,912	4.8	320,501	291,323
Diversified growth fund	394,217	6.0	418,028	370,406
Other assets	-36,955	2.1	(36,161)	(37,749)
<b>Total Investment Assets</b>	<b>3,825,954</b>	<b>8.4</b>	<b>4,173,287</b>	<b>3,478,621</b>

(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 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31		As at 31
March 2020		March 2021
£000		£000
130,996	Cash & cash equivalents	107,323
0	Other short term investments	
445,047	Fixed interest securities	598,762
<b>576,043</b>	<b>Total</b>	<b>706,085</b>

#### 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	Change in net assets	
	as at 31 March	+100 bps	- 100 bps
	2021	£000	£000
Cash & cash equivalents	107,323	1,073	(1,073)
Other short term investments	0		
Fixed interest securities	598,762	5,988	(5,988)
<b>Total</b>	<b>576,043</b>	<b>(7,061)</b>	<b>(7,061)</b>

Asset type	Carrying amount	Change in net assets	
	as at 31 March	+100 bps	- 100 bps
	2020	£000	£000
Cash & cash equivalents	130,996	1,310	(1,310)
Other short term investments	0		
Fixed interest securities	445,047	4,450	(4,450)
<b>Total</b>	<b>576,043</b>	<b>5,760</b>	<b>(5,760)</b>

### 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 2020/21 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March	%	Value on increase	Value on decrease
	2021		£000	£000
	£000	Change	£000	£000
Equities	3,196,669	7.70	3,442,882	2,950,456
Fixed interest	598,762	7.70	644,880	552,644
Property and Private Equity	301,623	7.70	324,855	278,391
Diversified Growth	455,222	7.70	490,284	420,160
Cash and Other Assets	5,619	7.70	6,052	5,186
<b>Total</b>	<b>4,557,895</b>	<b>7.70</b>	<b>4,908,953</b>	<b>4,206,837</b>

Asset type	Value at 31 March	%	Value on increase	Value on decrease
	2020		£000	£000
	£000	Change	£000	£000
Equities	1,299,887	7.35	1,395,460	1,204,314
Fixed interest	445,047	7.35	477,769	412,325
Property and Private Equity	279,294	7.35	299,829	258,759
Diversified Growth	394,217	7.35	423,201	365,233
Cash and Other Assets	11,619	7.35	12,473	10,765
<b>Total</b>	<b>2,430,064</b>	<b>7.35</b>	<b>2,608,732</b>	<b>2,251,396</b>

## 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 2021.

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 Lloyds Bank and 5 accounts with money market funds, managed by JP Morgan (Aberdeen, Black Rock, Deutsche, Goldman Sachs and Aviva). In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

<b>Balance at 31 March 2020</b>		<b>Balance at 31 March 2021</b>
<b>£000</b>		<b>£000</b>
	<b>Call account</b>	
19,000	Lloyds	0
	<b>Money market fund</b>	
1,800	Goldman Sachs	0
25,000	Aberdeen MMF	100
20,000	Aviva	11,500
15,100	Blackrock	100
1,600	Deutsche	11,100
	<b>Current account</b>	
123	HSBC	171
<b>82,623</b>	<b>Internally Managed Cash</b>	<b>24,971</b>
48,373	Externally Managed Cash	82,523
<b>130,996</b>	<b>Total Cash</b>	<b>107,494</b>

The fund's cash holding under its treasury management arrangements as at 31 March 2021 was £24.9million (£82.6million at 31 March 2020).

### 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 the Orbis Treasury Function 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 2020/21

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 2020/21 amounted to £70,887k (£74,480k in 2019/20).

2019/2020		2020/2021
£000		£000
48,894	Employers' current service contributions	52,262
21,126	Lump sum payments to recover the deficit in respect of past service	17,926
4,460	Payments into the fund to recover the additional cost of early retirement liabilities	698
<u>74,480</u>		<u>70,887</u>

ii) Surrey Pension Fund paid Surrey County Council £2,449k for services provided in 2020/21 (£2,270k in 2019/20).

2019/2020		2020/2021
£000		£000
453	Treasury management, accounting and managerial services	410
2,270	Pension administration services	2,449
<u>2,723</u>		<u>2,859</u>

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2021 were £2,620k (£3,070k at 31 March 2020).

iv) The Fund is administered by Surrey County Council. Consequently, there is a close relationship between the Authority and the Fund. The Authority is also the single largest employer of members in the Fund. All costs incurred by the Council as Administering body were recharged to the Pension Fund, with management, and other overheads apportioned to the Fund.

v) Members of both Pension Fund Committee and Local Pension Board are required to declare their interests at each meeting. Declarations of interest are recorded in the minutes of each meeting as part of the public record and a copy can be found on the Surrey County Council website.

#### **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.

<b>2019/20</b>	<b>Position</b>	<b>2020/21</b>	
<b>£</b>		<b>£</b>	
17,754	Executive Director of Corporate Resources	10,676	3
10,637	Director of Corporate Finance	16,652	1
100,904	Strategic Finance Manager (Pensions)	102,924	2
52,619	Senior Specialist Advisor	68,674	2
60,297	Senior Pensions Finance Specialist	68,532	2
<b><u>242,211</u></b>		<b><u>267,368</u></b>	

2019/20

1. 10% of time allocated to pension fund
2. 100% of time allocated to pension fund

2019/20

1. 10% of time allocated to pension fund
2. 100% of time allocated to pension fund
3. 5% of time allocated to pension fund

The Members of the Pension Fund Committee as at 31 March 2021 are shown below;

Elected Members:

Tim Evans (Chairman), Ben Carasco (Vice-Chairman), John Beckett, David Mansfield and Hazel Watson, Charlotte Morley,

Co-opted Members:

Ruth Mitchell, Tony Elias and Philip Walker

#### **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 market investments and internally held cash. For the Fund's private market investments, the custodial arrangements are managed by the individual private market partnership with each custodian in charge of all private market assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private market funds are as follows:

<b>Private Market Manager</b>	<b>Custody Provider</b>
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.
Border to Coast	Northern Trust International Banking Corporation

## **Note 24: Actuarial statement for 2020/21 - 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 2020. 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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 70% likelihood that the Fund will achieve the funding target 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 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,286 million, were sufficient to meet 96% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £196 million.

Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS. Contributions have the aim of achieving full funding within an appropriate time horizon and with an appropriate likelihood of success.

### **Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the 2019 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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.2%
Salary increase assumption	3.2%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's Vita Curves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a 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	22.1 years	24.3 years
Future Pensioners*	22.9 years	25.7 years

\*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

### Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

4 May 2021

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 2020/21 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	31/03/2021	31/03/2020
Active members (£m)	3,466	2,265
Deferred members (£m)	2,169	1,576
Pensioners (£m)	2,381	2,205
	<b>8,016</b>	<b>6,046</b>

The promised retirement benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. 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.

The 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 2021 and 31 March 2020. I estimate that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £1,627m. I estimate that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £93m.

## Financial assumptions

Year ended (% p.a.)	31 March 2021	31 March 2020
Pension Increase Rate	2.85%	1.90%
Salary Increase Rate	3.75%	2.80%
Discount Rate	2.00%	2.30%

## Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.3 Years	24.7 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.4 Years	26.4 Years

Please note that the longevity assumptions have 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 2021	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	747
0.5% p.a. increase in the Salary Increase Rate	1%	61
0.5% p.a. decrease in the Real Discount Rate	10%	824

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 my covering report titled 'Actuarial Valuation as at 31 March 2021 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.

Anne Cranston AFA (For and on behalf of Hymans Robertson LLP) 4 May 2021

## Note 26: Additional Voluntary Contributions

Market Value			Market Value	
2019/20	Position		2020/21	
£000			£000	
13,548	Prudential		TBC	
<u>13,548</u>			<u>TBC</u>	

Additional Voluntary Contributions, net of returned payments, of £2.1million were paid directly to Prudential during 2019/20 (£2.6million during 2018/19).

## 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 2020/2021 provides further details on the management, investment performance and governance of the Fund.