

## Surrey Pension Fund

### Summary

The Surrey Pension Fund held its Annual General Meeting in November and this paper is to update Executive on the membership and performance of the fund and to highlight any issues going forward including implications for the 2017/18 budget

### Portfolio - Finance

**Date Signed Off - 12 January 2016**

### Wards Affected

All

### Recommendation

The Executive is advised to NOTE and comment on the contents of the report

## 1. Resource Implications

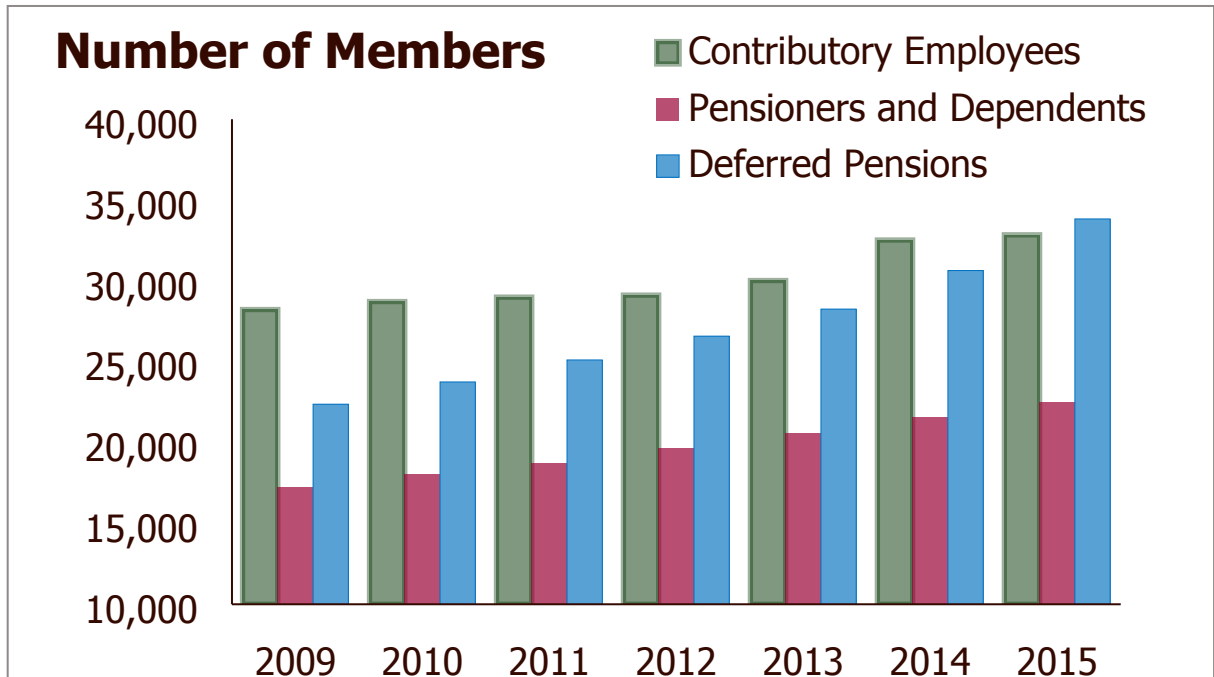
- 1.1 Pension contributions are a significant financial commitment for the Council. In 2016/17 employer contributions are expected to exceed £2m of which £800k are to fund pension deficits – this has increased by £500k in the last 3 years. As a result of these payments the deficit for Surrey Heath has fallen by £4m since the 2013 valuation and as a result contributions are likely to remain unchanged at the next actuarial review.
- 1.2 The Council can make a lump sum contribution towards the deficit which would result in on going revenue savings. Surrey Pensions are in the process of calculating the benefits of doing this and if it is beneficial this may be brought forward to Executive at a later date for consideration.

## 2. Key Issues

- 2.1 The Surrey Pension Fund is managed and administered by Surrey County Council on behalf of all Districts, the County and a number of other organisations. All of the figures given in this report are for the fund as a whole and not just for Surrey Heath.

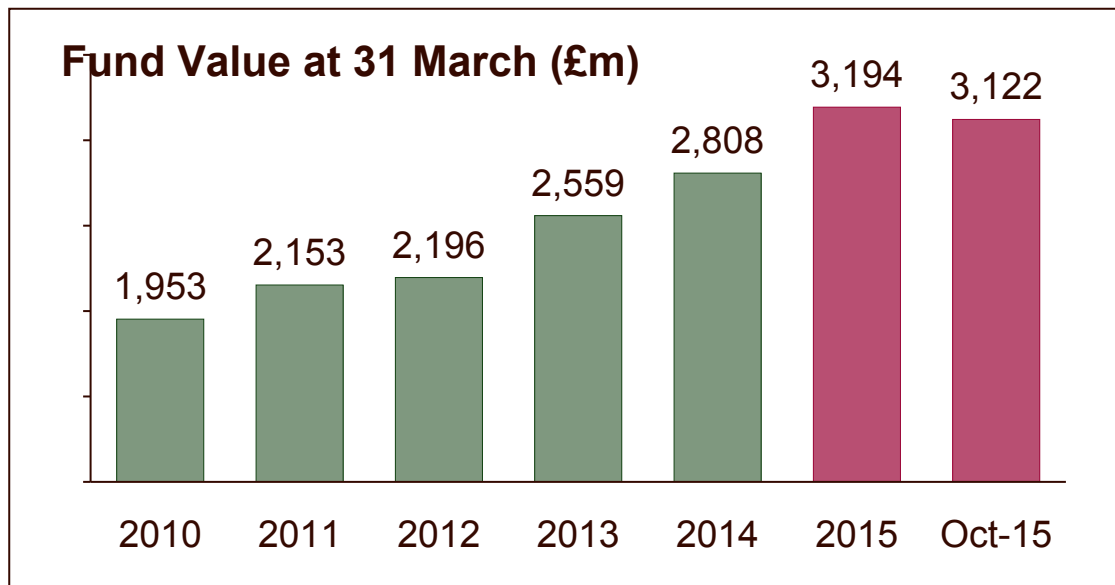
### Membership

- 2.2 At the end of March 2015 there were 89,165 members in the fund of which 32,851 were active, 22,481 pensioners and 33,833 deferred. Despite reduction in headcount this is an increase on previous years as a result of auto enrolment brought in by the Government for all employees. The graph below sets out the changes in membership



#### Market Value of the Fund

- 2.3 The fund was valued at £3.122bn on the 30<sup>th</sup> October 2015 a slight reduction on the £3.194bn valuation as at the 31<sup>st</sup> March 2015. The graph below illustrates how the fund valuation has changed over the course of the last 5 years.



#### Investment Strategy

- 2.4 The investment strategy is set by the Pension fund committee which includes representatives of the county and districts. The fund is managed so as to generate longer term growth to meet the future liabilities of the scheme. On a day to day basis it is managed by 10

professional fund managers. The table below shows the split of investments

	Policy at 30/09/15 %	Actual at 30/09/15 %
UK Equity	27.5	25.3
Overseas Equity	32.3	32.9
Bonds	17.6	16.4
Property	6.2	6.1
Diversified Growth	11.4	12.6
Private Equity	5.0	4.8
Cash	0.0	1.9

### Funding Update

2.5 Despite the investments in the fund growing the value has not kept pace with the increase in liabilities thereby increasing the deficit each year. Liabilities have risen due to:

- An increase in life expectancy – which continues to rise
- Very low gilt yields which are used to value liabilities as a result of the Government's low interest rate policy
- Changes to the scheme which rather than reducing liabilities have actually increased them.

The table below shows how the deficit has increased over the last few years.

	Actuarial Valuation 31/03/10	Actuarial Valuation 31/03/13	Quarterly Valuation 31/03/14	Quarterly Valuation 31/03/15	Quarterly Valuation 30/09/15
Liabilities	£2,699m	£3,538m	£3,523m	£4,245m	£4,255m
Assets	£1,944m	£2,559m	£2,808m	£3,194m	£3,016m
Deficit	£755m	£979m	£715m	£1,051m	£1,239m
Funding Level	72%	72.3%	79.7%	75.2%	70.9%
Total Contribution Rate	25.2%	30.7%			

### Outlook for the 2016 valuation and contribution rates for 2017/18 to 2019/20

2.6 The fund is due to have its triennial actuarial review at the 31<sup>st</sup> March 2016. This review will set the contribution rates for the next three years from 2017/18. As a result of the last revaluation deficit funding contributions were increased – for Surrey Heath by £510k pa.

Although on the face of it this was a large increase this was in fact a lot less than normal due to the fact that a longer term “stabilisation” approach had been taken by the actuaries. This approach seeks to smooth increases (and decreases) in contribution rates over a longer period rather than changing them to reflect short term movements in the market.

- 2.7 The current view of the actuaries is that the current employer contribution rate is likely to be unchanged at 15.7% and that the deficit contribution which was increased after the last review will remain at the current level. This is because the deficit for Surrey Heath has decreased since the last valuation. However this will depend on the final performance of the fund in March 2016. Pensions costs continue to be a significant financial cost for the council especially in the light of future reductions in Government funding.

### **3. Options**

- 3.1 The Executive are only asked to note the contents of the report.

### **4. Proposals**

- 4.1 It is proposed that the Executive NOTES the report COMMENT as appropriate.

### **5. Supporting Information**

- 5.1 The Surrey Pension Fund AGM report available on the Surrey County Council website.

### **6. Corporate Objectives And Key Priorities**

- 6.1 The funding of pensions is a key part of the budget and therefore can influence all of the council’s key priorities.

### **7. Policy Framework**

- 7.1 The Councils is required to be a member of the fund and to comply with any funding directions.

### **8. Legal Issues**

- 8.1 The Council is a member together with other organisations of the Surrey Pension Fund. All members underwrite the liabilities of the fund irrespective of where they arise.

### **9. Governance Issues**

- 9.1 The Districts nominate representatives to sit on the Pensions Board.

### **10. Sustainability**

10.1 Not Applicable

## 11. Risk Management

11.1 The fund is advised by actuaries and investment advisors with a view to minimising financial risk within the fund.

## 12. Officer Comments

12.1 None.

<b>Annexes</b>	<b>None</b>
<b>Background Papers</b>	<b>Surrey Pension fund Annual report 2015 available on the Surrey County Council website</b>
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### Consultations, Implications and Issues Addressed

<b>Resources</b>	<b>Required</b>	<b>Consulted</b>
Revenue	✓	
Capital		
Human Resources		
Asset Management		
IT		

<b>Other Issues</b>	<b>Required</b>	<b>Consulted</b>
Corporate Objectives & Key Priorities	✓	
Policy Framework		
Legal		
Governance		
Sustainability		
Risk Management		
Equalities Impact Assessment		
Community Safety		
Human Rights		
Consultation		
P R & Marketing		

**Review Date:**

**Version:**