London Borough of Sutton

Pension Fund Annual Report 2021/22

Sutton

1. INTRODUCTIONS

PENSION COMMITTEE CHAIR'S INTRODUCTION

I am pleased to present the Pension Fund Annual Report for 2021/22. This report brings together the Fund's financial statements with a review of financial and investment performance and the work of the shared pensions administration service. It also contains the Fund's key policy documents.

Over the past year the Fund's value has increased by £42m to £854m, representing an increase of 5.06%. This increase has been largely driven throughout the year by the Fund's allocation to growth assets, primarily equities. During the year global equity markets continued to produce strong returns, however by the final quarter the situation had changed, with equity markets having fallen significantly, amid increasing uncertainty caused by rising inflation and Central Banks tightening their monetary policies, alongside the Russia/Ukraine conflict. The Fund's investments delivered an overall annual return of 7.1%, along with positive longer term returns over a 3 and 5 year period at 9.3% and 7.5% respectively, which is broadly in line with the Fund's customised benchmark over those time periods. Performance relative to other LGPS funds was also positive, being in the upper quartile over 3 years and median quartile over 1 and 5 year time periods.

At the last triennial valuation in 2019 the Fund was assessed at 90% funded. Despite the estimated funding level at 31 March 2020 falling to 88%, it recovered to 96% at 31 March 2021, following investment market recovery during that year and stayed at a similar level at 31 March 2022. The valuation forms a key part of the Fund's management and directly impacts on the contributions paid by employers, including the council. The valuation will not, however, affect the benefits or contribution rates of individual members, which are set nationally. Officers are currently working with the Fund's actuary on the March 2022 triennial valuation, with the results expected in September.

The shared pensions administration service provides the administration of the Local Government Pension Scheme (LGPS) for both Sutton Council and Kingston Council. The Fund's membership stands at just over 15,500 across 59 scheme employers. The Fund continues to invest in providing a service to its members, via consultations with employers and access to the self-service portal for individual members. The appointment of a pensions benefits consultant has been critical to helping the Fund make progress on a number of key items in pensions administration, including the development of a plan to manage the McCloud remedy project. In addition, the adviser has supported a review of resourcing requirements to ensure that the Fund is able to meet increasingly complex regulatory requirements.

At the start of the year, procurements were undertaken for actuarial, benefits, governance and investment consultancy using a robust evaluation process. This led to the appointment of Hymans as a joint actuary across the shared service, AON as governance and benefits consultant and Mercer as investment consultant. Working across the shared service meant that efficiency savings were made, not just on the procurement process, but also cost savings on all appointments. Following a major investment strategy review in 2020/21, the team has implemented a number of changes that have helped support the Fund's greater focus on responsible investment and climate change, as well as increasing the proportion of assets managed by the London Collective Investment Vehicle (LCIV). Currently, around 62% of the Fund's assets are pooled with the LCIV. The Fund continues to work closely with the LCIV to ensure that it provides investment strategies that meet the Fund's needs and assess the opportunities it presents for further pooling.

A governance review was carried out during the year with most of the recommendations being implemented. The Fund is keen to ensure that it is at the forefront of best practice and prepared for expected focus on this area, as a result of the LGPS Scheme Advisory Board Good Governance Review and also the anticipated Pensions Regulatory Single Code of Practice.

With best in class governance and robust policies in place, the Fund is fully equipped to deal with the coming changes that will affect the LGPS over the medium term.

Councillor Cryss Mennaceur
Chair of the Pension Committee

PENSION BOARD CHAIR'S INTRODUCTION

I am pleased to join Councillor Mennaceur in presenting the Pension Fund Annual Report for 2021/22.

The Pension Board helps the pension fund comply with the LGPS rules, pensions legislation and guidance from the Pensions Regulator. In its operation, the Board seeks to complement the Pensions Committee and aims to add value to the Fund. The ways in which it has done this in 2021/22 include:

■ Review of administration performance and the recommendation of potential amendments to the reports, to enable greater understanding and future challenge by Board and Committee members;
■ Recommending to officers to clarify the increasing challenges of administering the Fund, due to the volume of extra reporting requirements and, in particular, significantly expanded number of admitted bodies. This is considered very important by the Board, as pensions administration is one of the few areas increasing in establishment;
■ Making the specific recommendation to the Pension Committee to give voting rights to co-opted members in line with best practice, and
■ Scrutiny of pension fund investment performance and, more specifically, the asset allocation and compliance with the investment strategy leading to clearer reporting and explanation of the transition arrangements;

In line with the Governance Review, the ambition of the Board is to work effectively alongside the Pension Committee and the new Committee Chair, with guidance to be sought from the Fund's advisors on the best examples of how this is achieved elsewhere.

Jonathan Bunt
Chair of the Pension Board

2. OVERALL FUND MANAGEMENT

Scheme management and advisers

Administering Authority
London Borough of Sutton
Supporting Officers
Richard Simpson, Strategic Director – Resources (Lead Officer for the Pension Fund)
Victoria Goddard, Assistant Director, Finance
Andrien Meyers, Head of Pensions Investments
Jill Davys, Pensions Finance and Investment Manager
Bradley Peyton, Head of Insurance, Pensions and Records Management
Andy Gray, Pensions Administration Manager (left 31/12/21)
Scheme Administrators
Sutton and Kingston Pensions Administration Shared Service
Asset Pool
London Collective Investment Vehicle (LCIV)

Investment Managers:		
Equities (Active)	**Equities (Passive)**	**Diversified Growth**
Newton (LCIV)	Legal and General	Baillie Gifford (LCIV)

Harding Loevner		Pyrford (LCIV)
RBC Sustainable Equity (LCIV)	**Fixed Income**	
	Legal and General	
Property	**Multi Asset Credit**	**Infrastructure**
BlackRock	M&G	Partners Group
LaSalle	LCIV MAC Fund	
Invesco		
Investment Adviser	**Banker**	
Mercer	Lloyds Bank	
Actuary	**Legal Advisor**	
Hymans Robertson	South London Legal Partnership	
Auditor	**AVC Provider**	
Grant Thornton	Clerical Medical and Utmost	
Performance Monitoring	**Custodian**	
Mercer	Northern Trust	

3. FINANCIAL PERFORMANCE

Fund Income and Expenditure From 2017/18 to 2021/22

Income and expenditure of the Fund over the past five years is shown in the table below.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Contributions receivable	34,359	47,373	39,099	44,080	36,896
Benefits payable	(32,125)	(66,527)	(32,925)	(33,243)	(50,632)
Net payment to/(from) the Fund	2,234	(19,154)	6,174	10,837	(13,736)
Fund management expenses	(6,115)	(6,308)	(6,015)	(6,510)	(6,571)
Net returns on investment	9,923	7,606	9,354	11,785	9,344
Change in market value	17,404	40,070	(33,264)	156,201	52,091
Net (decrease)/increase in the Fund	**23,446**	**22,214**	**(23,751)**	**172,313**	**41,128**

The above table shows a net increase in the Fund's value of £235m over the past 5 years. This is largely attributed to the change in market value of £233m over this period. The net contributions from members has been mainly positive over the past 5 years. The position for 2018/19 and 2021/22 was affected by large bulk transfers as detailed below. Fund management expenses have been more than covered by net returns on investments and further details on these are also provided below.

Analysis of Contributions and Benefits of the Fund

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Contributions Receivable					
- Members	5,940	6,072	6,555	7,006	7,562
- Employers	24,849	25,251	25,979	33,760	25,669
- Transfers in	3,570	16,050	6,565	3,314	3,665
Total Contributions	34,359	47,373	39,099	44,080	36,896
Benefits Payable					
- Pensions	(21,240)	(22,023)	(22,926)	(23,659)	(26,221)
- Lump sum retirements and death benefits	(4,550)	(5,170)	(4,587)	(3,910)	(3,972)
- Transfers out	(6,250)	(39,210)	(5,258)	(5,584)	(20,281)
- Refunds	(85)	(124)	(154)	(90)	(158)
Total Benefits Payable	(32,125)	(66,527)	(32,925)	(33,243)	(50,632)
Net Payment to / (from) the Fund	**2,234**	**(19,154)**	**6,174**	**10,837**	**(13,736)**

As shown in the table above, the value of transfers in for 2021/22 was £3,665k (2020/21: £3,314k) which consists largely of small individual transfers into the pension Fund from other organisations. Looking at the 5 year period, 2018/19 transfers in were relatively high, due to bulk transfers from the Royal Borough of Kingston upon Thames in respect of the Shared Finance Service, estimated at £9.6m and in respect of the transfer of the Customer Contact Centre, estimated at £1.5m.

Transfers out of the Fund during 2021/22 was £20,281k (2020/21: £5,584k). 2021/22 includes a bulk transfer of £15.5m due to Croydon Council for the South London Waste Partnership. The figure of £39,210k for 2018/19 included the following group transfers payable from the London Borough of Sutton:

- £5.4m in respect of the transfer of Human Resources to Merton,
- £7.7m in respect of the transfer of Human Resources to Kingston,
- £8.9m in respect of the transfer of Highways to Kingston, and
- £13.2m in respect of the transfer of Carshalton College to the London Pension Fund Authority.

Analysis of Fund Management Expenses

The costs of managing the Pension Fund are split into three areas; administration costs, investment management expenses and oversight and governance costs. These costs incurred over the last five years are shown in the table below.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Administration Cost					
Internal support costs	303	395	524	719	921
Other	197	113	291	103	117
Sub-total Administration Costs	**500**	**507**	**815**	**822**	**1,038**
Investment Management Expenses					
Management fees (including performance fees)	4,009	4,446	3,423	4,049	4,301
Transaction costs	1,335	1,118	1,421	1,401	837
Custodian	143	97	37	38	106
Sub-total Investment Management Expenses	**5,487**	**5,661**	**4,881**	**5,488**	**5,244**
Oversight and Governance Costs					
Actuarial fees	45	54	113	46	17
External audit	21	16	16	34	30
Investment advice	45	30	84	83	52
Other	17	39	106	37	190
Sub-total Oversight & Governance Costs	**128**	**140**	**319**	**200**	**289**
Total Fund Management Expenses	**6,115**	**6,308**	**6,015**	**6,510**	**6,571**

Investment management expenses are based on a percentage of the market value of their portfolio and therefore increase as the Fund's value increases. In the last few years, the Local Government Pension Scheme Advisory Board has launched its cost transparency code to improve the quality of information on investment fees, meaning that the Fund is able to better capture all investment management costs using detailed, standardised templates. 2021/22 has seen a significant increase in the number of the Fund's investment managers participating in this exercise. The Fund uses pooled investment vehicles, for which the majority do not separately invoice their fees; rather the fees are taken directly from the asset value of the fund. The cost transparency code has helped to make identification of these fees easier. Oversight and Governance costs were higher in 2019/20, primarily due to increased actuarial and investment consultant costs, as the Fund carried out its triennial valuation and investment strategy review. Investment fund managers also passed on higher governance costs during 2021/22. Overall, in 2021/22 the cost of managing the Fund represents approximately 0.8% (2020/21: 0.8%) of the value of the Fund. The absolute cost of managing the fund increased minimally during the year by £61k.

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Membership Number	**14,236**	**14,088**	**14,761**	**15,094**	**15,584**
Cost per member					
Administration costs	36	58	56	69	67
Investment Management costs	398	346	372	347	336
Oversight and Governance costs	10	23	14	19	19
Total Fund costs per member	**443**	**427**	**441**	**435**	**422**

The above table shows that the Fund cost for each member of the Fund over the last 5 years has remained relatively constant.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Current Assets	18,635	4,545	7,998	6,755	15,216
Current Liabilities	(7,582)	(13,772)	(560)	(2,129)	(18,034)
Net Current Assets	**11,053**	**(9,227)**	**7,438**	**4,626**	**(2,818)**

Current assets are made up of cash and income due to the Fund at the end of each year.

Current liabilities includes fund expenses outstanding at year end. The balance at 31 March 2022 of £18,034k included £15,450k for a bulk transfer of Carshalton College to Croydon Council.

4. INVESTMENT POLICY AND PERFORMANCE REPORTING

Investment Background 2021-22

Macro

The world entered the second quarter of 2021 with heavy Covid-19 related restrictions in place but the successful roll-out of vaccinations in developed countries created optimism over imminent reopenings that would be more sustainable this time than a year before. The reopening rebound in July and August 2021 in developed countries did indeed materialise and drove risk-on sentiment initially. However, some emerging economies re-imposed restrictions, which added to already existing supply chain pressures. The supply impact was felt with increasing intensity in September with bottlenecks in a large number of areas. One major event was a run on UK petrol stations at the end of September after rumours of fuel shortages became a self-fulfilling prophecy. Soaring energy future prices in the UK and Europe led to a further deterioration in sentiment. In the emerging world, China's attempt to deflate its property market by tightening credit increased financial distress and led to the bankruptcy of some large property developers, most notably Evergrande. This came in addition to its disruptive regulatory campaign that created enormous uncertainty for Chinese companies and led to a sharp deterioration in business sentiment.

The fourth quarter did not bring much better news for investors. Persistently high inflation in both developed and emerging countries prompted central banks to become more hawkish. Tightening in emerging markets that had already started reacting earlier in the year continued. The Federal Reserve began to taper asset purchases, setting the stage for interest rate rises as early as in 2022. The Bank of England increased rates by 15bps to 0.25% in December. Only the European Central Bank and Bank of Japan remained on the fence. There was a further Covid-19 variant scare from late November onwards but with a more limited impact this time. International travel restrictions were somewhat tightened and only a few countries in Europe re-imposed meaningful domestic restrictions. The US and UK opted instead for a more pragmatic approach of keeping their economies open and focusing on making booster vaccinations more widely available. Some optimism returned late in the year as existing vaccines proved to still be sufficiently effective against severe symptoms whilst the new variant also appeared to be less severe than feared, although more contagious.

At first, 2022 started on a positive note. The continued absence of far-reaching Covid restrictions in developed countries supported demand. Although inflation came in at elevated levels, a combination of improving supply chains and moderate monetary tightening was expected to bring it under control. The invasion of Ukraine and subsequent spike in commodity markets completely changed this narrative, however. Central banks were forced to accelerate this pace of tightening even as growth expectations were dialed down. The recovery in supply chains was nipped in the bud both due to the conflict, sanctions on Russia and China locking down large manufacturing hubs.

Overall, the 12-month period was shaped by a strong global economic recovery supported by economies reopening, higher increased household savings and loose monetary policy. This position fell under pressure in 2022 amid rising inflation, tightening monetary policy, the conflict in Ukraine and renewed lockdowns in China, just when there was hope that supply chains would improve and Covid-19 would cease to cause major economic disruptions.

Equities

On a year-on-year basis to 31 March 2022, Sterling returns for developed market equities were strong, with the exception of Japan. Emerging market equities had negative returns. Equity markets contracted over the first quarter of 2022. Markets sold off through the quarter due to monetary tightening, the Ukraine conflict and associated spikes in commodity prices.

Global Equities were down c.10% intra-quarter in sterling terms. However, markets then rebounded strongly towards the end of the quarter led by strength in US Large Cap Equities.

Throughout the second half of 2021, developed market returns remained strong, while small cap equity returns flattened due to growing list of concerns including: a potential global slowdown, intensifying supply chain stresses and other inflationary pressures, another Covid-19 variant scare and monetary policy turning less expansive increased volatility for developed markets. Meanwhile, headlines relating to a less markets friendly regulatory stance from the Chinese government negatively impacted emerging market equities in the second half of 2021.

Bonds

On a year-on-year basis to 31 March 2022, UK government bond returns were negative as were returns for UK corporate bonds whilst returns for inflation-linked bonds were positive.

Over the second half of 2021, however, inflation fears were strong, exacerbated by the intensifying supply bottlenecks. This led the Bank of England to become more hawkish and increase the base rate to 0.25% at their December meeting. Inflation pressures only increased from there and the BoE subsequently increased rates a further two times with the base rate reaching 0.7%% by the end of March 2022. The market brought forward their expectations of the timing of rate increases and caused yields at the short and medium end of the curve to rise considerably over the year. For the year to 31 March 2022, the 10-year UK gilt yield rose 77 basis points and ended the year at 1.6%. The sharp increase in yields over the year explains the poor performance of duration assets across the board.

UK real yields still fell over the year to March 2022 as rising inflation expectations more than offset the increase in nominal rates. Market-based measures of inflation, as measured by the 10-year break-even inflation rate rose by 80bps over the year reaching 4.4% as at the end of March 2022. This is the highest level since the 2008 financial crisis.

Both investment grade and high yield credit spreads widened over the year. Most of this widening materialized in December 2021 through to March 2022. This exacerbated the negative duration impact. However, credit still performed in line with government bonds in spite of the dual impact of rising yields and spreads. This is because duration for credit tend to be lower than for government bonds.

Property

UK commercial real estate continued to rebound strongly towards the end of 2021, with Q4 investment returns being among the strongest on record and investment volumes returning to pre-pandemic norms. Strong performance was driven by both yield compression and rising rental values, which were particularly pronounced for industrial and warehouse assets. The retail sector, which has endured a torrid few years, continued its tentative recovery, led by growing demand for out-of-town retail warehouses and Central London high street shops. Offices lagged the industrial and retail sectors in Q4, but still performed reasonably well despite uncertainties about the post pandemic return of office workers.

Equity Markets

At a global level, developed markets as measured by the FTSE World index, returned 14.9%. Meanwhile, a return of -3.3% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 6.5% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned 13.0%. The FTSE USA index returned 19.3% while the FTSE Japan index returned -2.3%. UK equities caught up considerably with global equities in the first quarter of 2022 due to the index's large exposure to oil, gas and basic materials.

Equity market total return figures are in Sterling terms over the 12-month period to 31 March 2022.

Bonds

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -5.1%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -7.2% over the year. The yield for the FTSE Gilts All Stocks index rose over the year from 1.2% to 1.7% while the Over 15 Year index yield rose from 0.7% to 1.1%.

The FTSE All Stocks Index-Linked Gilts index returned 5.1% with the corresponding over 15-year index exhibiting a return of 3.9%. Rising inflation expectations offset rising nominal yields to an extent, cushioning the fall of real yields somewhat which explains the outperformance of index-linked gilts relative to nominal gilts.

Corporate debt as measured by the ICE Bank of America Merrill Lynch Sterling Non-Gilts index returned -5.1%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 March 2022.

Property

Over 12-month period to 31 March 2022, the MSCI UK All Property Index returned 20.9% in Sterling terms.

Commodities

The price of Brent Crude Oil rose 69.2% from $63.52 to $107.46 per barrel over the one-year period. Over the same period, the price of Gold increased 13.9% from $1704.74 per troy ounce to $1941.15. Commodities rallied significantly in the first quarter of 2022, as Russia invaded Ukraine. As Russia was sanctioned by large parts of the world, energy markets spiked due to the uncertainty of supply given Russia being such a large supplier of oil and gas to Europe.

The S&P GSCI Commodity Spot Index returned 62.4% over the one-year period to 31 March 2022 in Sterling terms.

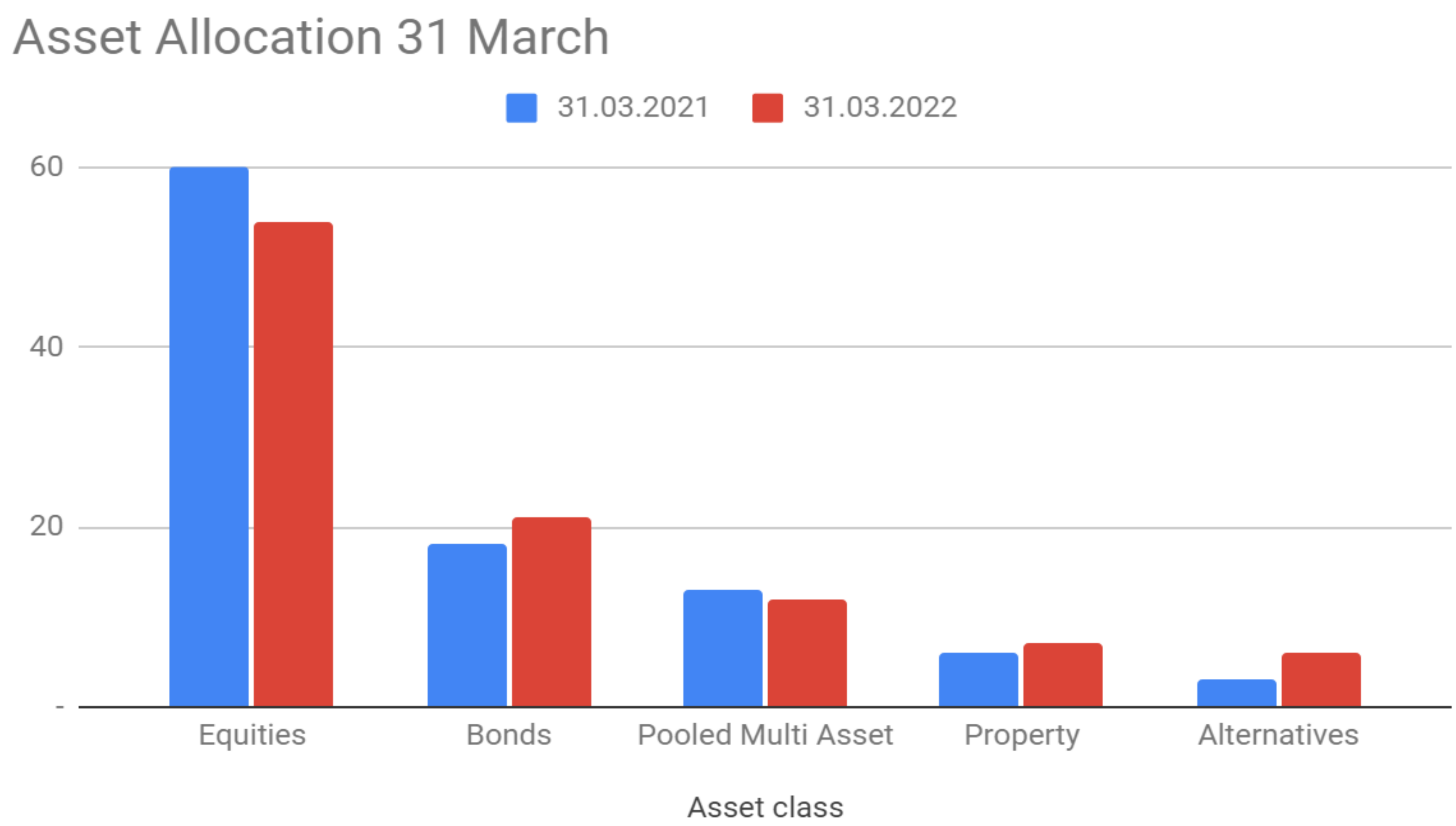
Currencies

Over the 12-month period to 31 March 2022, Sterling depreciated by 4.6% against the US Dollar from $1.38 to $1.32. Sterling appreciated by 4.8% against the Yen from ¥152.46 to ¥159.81. Sterling appreciated against the Euro by 0.8% from €1.17 to €1.18 over the same period.

Asset Allocation and Manager Breakdown

The table below shows the approved target allocations of individual asset classes against the actual allocations for the two most recent years ending 31 March. Allocation to equities at year end was 54%, with the rest allocated to bonds, multi-asset funds and alternative assets, such as property and infrastructure. Following the implementation of planned strategic changes to its investment strategy, during 2021/22 the Fund reduced it's overweight allocation to equities and increased its allocation to alternative assets, primarily infrastructure and private debt.

Asset class	Asset Allocation	Asset Allocation	Strategic Asset Allocation	Variance from Strategic Asset Allocation
	31.03.2021	31.03.2022		31.03.2022
Equities	60	54	50	4
Bonds	18	21	15	6
Pooled Multi Asset	13	12	10	2
Property	6	7	10	(3)
Alternatives	3	6	15	(9)
	100	**100**	**100**	



During the year ended 31 March 2022, equity managers Legal & General, Harding Loevner, Schroder, Newton and RBC (both with the LCIV) along with diversified growth managers, Baillie Gifford, Pyford (both with the LCIV) were employed as the Fund's growth investment managers. The Fund was also invested in illiquid asset funds with three property fund managers; LaSalle, Invesco, BlackRock, in infrastructure with Partners Group, in multi asset credit with M&G and the LCIV and in private debt with the LCIV. The market value of the investment assets under the management of each fund manager as at 31 March 2021 and 31 March 2022 is shown below.

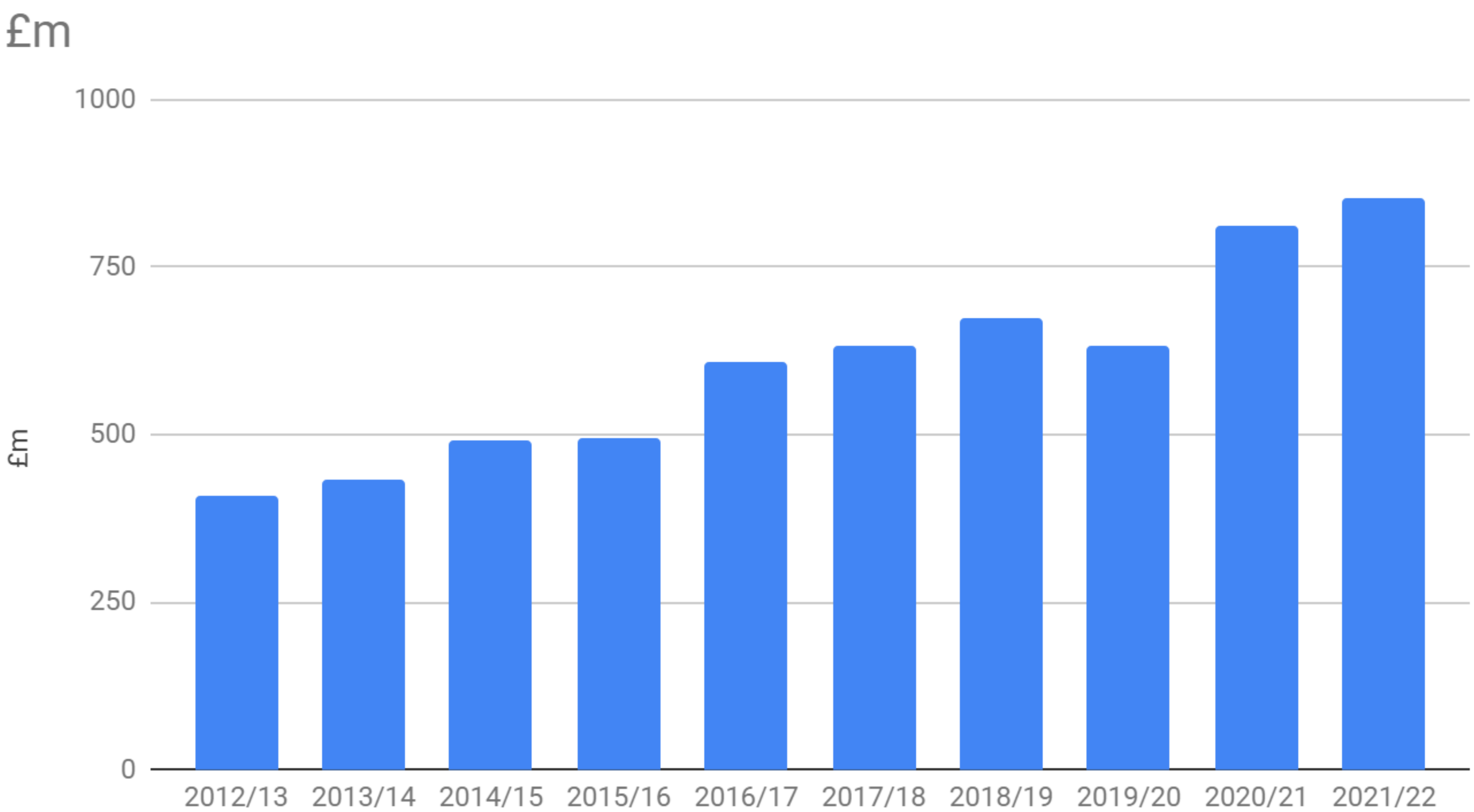
Fund Manager	% at 31/03/22	Value at 31/03/21 £'000	Value at 31/03/22 £'000
Investments managed by London Collective Investment Vehicle	**43.5**	**238,608**	**372,100**
Pyrford - LCIV Global Total Return Fund		45,970	47,948
Baillie Gifford - LCIV Diversified Growth Fund		50,179	51,889
Newton - LCIV Global Equity Fund		142,459	103,823
RBC - LCIV Sustainable Equity Fund		-	121,626
CQS - LCIV Multi Asset Credit Fund		-	29,720
Pemberton & Churchill - LCIV Private Debt Fund		-	17,094
Investments managed outside of London Collective Investment Vehicle	**56.5**	**564,088**	**483,693**
Schroder Life QEP Global Active Value Fund		119,247	-
Harding Loevner Funds Plc Global Equity Fund		158,806	166,187
Legal & General All World Equity Index Fund		66,951	-
Legal & General Future World Global Equity Index Fund		-	74,422
Legal & General Over 5 Year Index Linked Gilts Fund		37,045	93,404
M&G Alpha Opportunities Fund		56,508	56,974
M&G PP Index Linked Fund		50,865	-
LaSalle Investors UK Real Estate Fund of Funds		11,734	13,596
BlackRock UK Property Fund		22,373	26,376
Invesco Real Estate UK Residential Fund SCSp		15,258	16,398
Partners Group Direct & Global 2015 S.C.A., SICAV-SIF & Global 2012 S.C.A., SICAR		25,301	36,336
Total		**802,696**	**855,793**

Each fund manager has been set a specific benchmark, as well as a performance target against which they will be measured. This is shown in the table below.

Manager	Benchmark	Performance Target
Newton	MSCI AC World Index	+1.5% p.a. (net of fees)
Harding Loevner	MSCI AC World Index (NDR) Index	+3% p.a. (gross of fees)
RBC Sustainable Equity	MSCI World (NDR) Index	+2% p.a. (net of fees)
Legal & General Future World	Solactive L&G ESG Global Markets Net	To match the benchmark
Legal & General Index Linked Over 5 Years	FTSE A Over 5 Years Index-Linked Gilts Index	To match the benchmark
Baillie Gifford	UK Base Rate	+3.5% p.a. (net of fees)
Pyrford	RPI	+5% p.a. (net of fees)
M&G Alpha Opportunities	SONIA	+3% p.a. (gross of fees)
Multi Asset Credit	SONIA	+4% p.a. (net of fees)
BlackRock	MSCI UK Pooled Property Funds Index	-
LaSalle	MSCI All Property Funds Median	-
Invesco	Absolute 8% p.a.	-
Partners Group 2012 Direct	-	+7% to +11% p.a. (net of fees)
Partners Group 2015 Direct	-	+8% to +12% p.a. (net of fees)
Partners Group 2015 Global	-	+7% to +11% p.a. (net of fees)
Partners Group 2020 Direct	-	+8% to +12% p.a. (net of fees)
Private Debt	-	+6% to +8% p.a. (net of fees)

The market value of the total investment assets held by the fund managers over the last 10 years is shown below.

FUND VALUE* OVER 10 YEARS



*This does not include cash balances held by the Fund and managed by the Council on the Fund's behalf.

Fund History

From 1998 – 2005 the Fund was managed by Henderson Global Investors and Deutsche Asset Management (formerly Morgan Grenfell). The balanced mandate was split equally between both managers and invested in Equities, Bonds and Property.

In 2004, 10% of the total Fund was allocated to property managed by Deutsche Property Asset Management with resources transferred from Henderson Global Investors and the main multi-asset Deutsche portfolio.

In December 2005, the remainder (90%) of the Fund was separated into two global equity mandates and one bond mandate, managed by Aberdeen Fund Management Ltd (formerly Deutsche Asset Management Ltd). The equity element of the Fund was managed by Newton Investment Management and AllianceBernstein, until March 2011 when AllianceBernstein was replaced by Legal & General.

In September 2009 the decision was made to invest in M&G UK Companies Financing Fund and in July 2011 the Pension Fund employed Aviva Investors, a real estate fund-of-funds manager.

In June 2012, the Fund appointed Partners Group as an infrastructure manager.

In October 2012 four new fund managers were appointed. Harding Loevner and Schroder were hired to manage two new pooled global equity mandates and Baillie Gifford and Pyrford were awarded the two new pooled absolute return mandates. The existing segregated mandate with Newton was subsumed in a new pooled global equity mandate with them and the existing pooled global equity mandate with L&G was transferred to a pooled UK equity mandate.

The Property portfolio was managed by RREEF (formerly Deutsche Property Asset Management) until December 2012, when the RREEF UK Core Property mandate amalgamated with BlackRock's UK Property mandate.

In March 2014, the decision was made to transfer the existing bond mandate with Aberdeen to M&G with 40% to be invested in their Index-Linked fund and 60% in their Alpha Opportunities fund. The transition took place at the end of May in 2015.

In November 2015, a decision was made to appoint Invesco as a new residential property manager.

From 2016 the Fund has begun to transfer assets to the London Collective Investment Vehicle (LCIV). The 2 absolute return managers, Baillie Gifford and Pyrford, were appointed by LCIV as their managers of the Diversified Growth Fund and the Global Total Return Fund respectively, so this was a straight forward transition. Similarly, in the following year, LCIV appointed Newton as the manager of their Global Equity Fund and the Fund was able to transition assets already managed by Newton into this fund.

In May 2018, Aviva Investors took the decision to sell its Real Estate Multi-Manager (REMM) business to LaSalle Investment Management and the Fund's investment with Aviva transitioned to LaSalle.

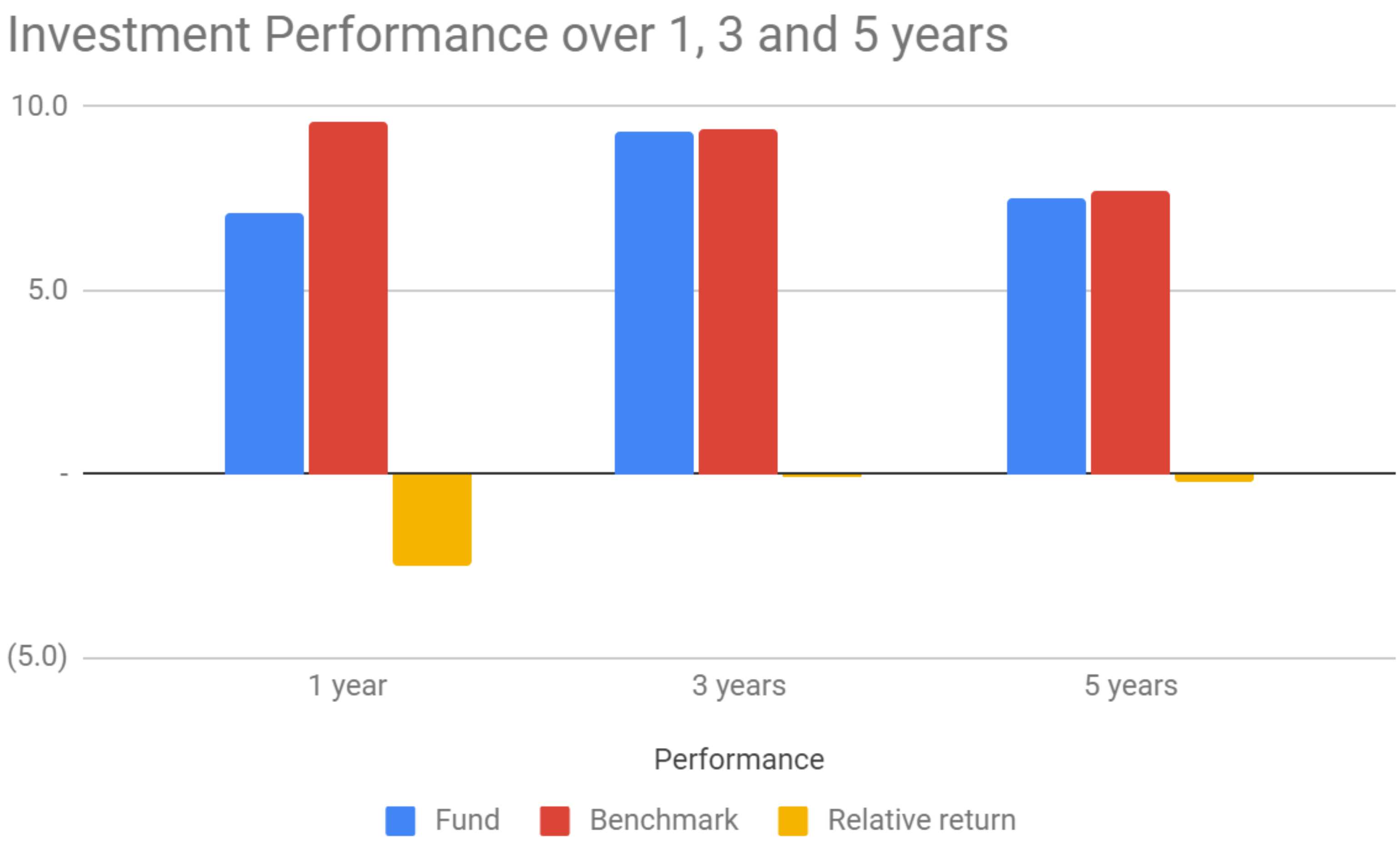
A number of investment strategy changes were implemented during 2021/22 . In July 2021 a new 2020 Direct fund was opened with Partners Group. In August 2021, the Fund terminated it's mandate with Schroders and transitioned the assets to a new mandate with the LCIV's RBC Sustainable Equity Fund. During September 2021 all holdings in LGIM's All World Equity Index Fund were disinvested and transferred to LGIM's new Future World Equity Index Fund. £26m was redeemed from the LCIV Global Equity Fund (Newton) to provide funds for investment in a new LCIV Private Debt Fund in November 2021. All holdings in M&G's UK Index Linked Fund was disinvested and transferred to LGIM's Index Linked Fund in December 2021. Finally, in February 2022 a further £30m was redeemed from Newton to fund a new investment in the LCIV MAC Fund.

Performance

The following three tables provide comparative analyses of performance over 1 year, 3 years and 5 years at total Fund level and at fund manager level against the relevant benchmark. All figures are shown net of fees.

Performance	1 year	3 years	5 years
Fund	7.1	9.3	7.5
Benchmark	9.6	9.4	7.7
Relative return	(2.5)	(0.1)	(0.2)

At total fund level, as at March 2022 the Fund underperformed the benchmark by 2.5% over the past year, underperformed by 0.1% per annum over three years and underperformed by 0.2% per annum over five years.

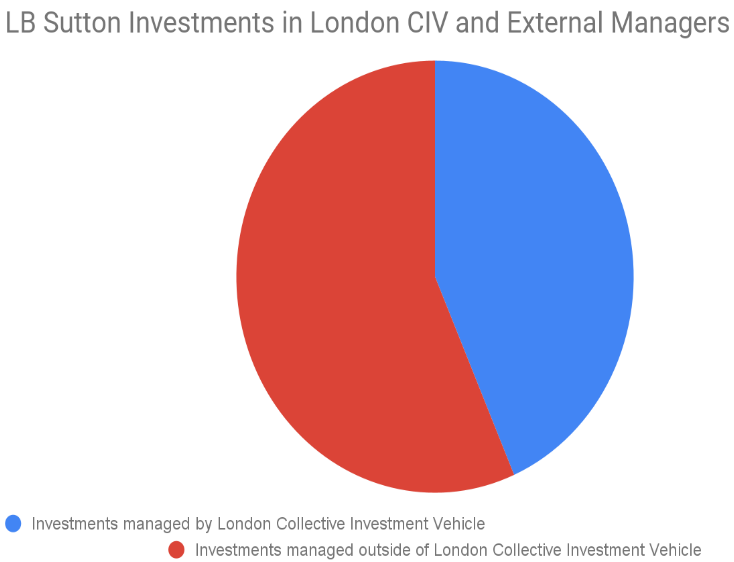

Investment Performance over 1, 3 and 5 years
10.0
5.0
-
(5.0)
1 year
3 years
5 years
Performance
Fund
Benchmark
Relative return

	1 year performance			3 year performance			5 year performance		
Manager	**Fund Return**	**Benchmark Return**	**Relative return**	**Fund Return**	**Benchmark Return**	**Relative return**	**Fund Return**	**Benchmark Return**	**Relative return**
London Collective Investment Vehicle:									
Newton - Global Equity	10.5	12.9	(2.4)	13.9	13.9	-	-	-	
RBC - Sustainable Equity	-	-	-	-	-	-	-	-	-
Baillie Gifford - Diversified Growth Fund	3.4	3.7	(0.3)	3.6	3.8	(0.2)	3.2	3.9	(0.7)
Pyrford - Diversified Growth Fund	4.2	14.0	(9.8)	3.5	9.3	(5.8)	2.2	8.9	(6.7)
CQS - Multi Asset Credit Fund	-	-	-	-	-	-	-	-	
Pemberton & Churchill - Private Debt Fund	-	-	-	-	-	-	-	-	-
Other Managers:									
Harding Loevner - Global Equity	4.7	12.4	(7.7)	14.1	13.4	0.7	12.1	10.5	1.6
Legal & General - Index Linked									
Legal & General - Global Equity	-	-	-	-	-	-	-	-	-
M&G - Multi Asset Credit	-	-	-	-	-	-	-	-	-
LaSalle - Property	19.1	21.0		4.2	7.7		5.0	7.5	
BlackRock - Property	21.3	20.9	0.4	7.6	6.3	1.3	7.5	6.4	1.1
Invesco - Property	7.6	8.0		3.9	8.0		2.0	8.0	
Partners Group Global 2012 - Infrastructure	9.6	-	-	6.8	-	-	11.5	-	
Partners Group Direct 2015 - Infrastructure	23.0	-	-	16.9	-	-	-	-	-
Partners Group Global 2015 - Infrastructure	29.1	-	-	14.6	-	-	-	-	-
Partners Group Direct 2020 - Infrastructure	-	-	-	-	-	-	-	-	-

As a passive manager Legal & General’s returns matched the benchmark since inception.

5. ASSET POOLS

In 2015 the Government announced that the 89 LGPS funds nationally should pool their assets into 6 or 7 regional asset pools of at least £25bn each which would have the key objective of delivering management fee savings while maintaining investment performance. In addition, the benefits of scale would allow individual LGPS funds to access investments in infrastructure without an expensive management arrangement. In London the 32 boroughs and the City of London Corporation are shareholders of the London Collective Investment Vehicle (LCIV). LCIV is the asset pooling body set up originally by London Councils. Its objective is to provide funds that meet the investment strategies required by the different LGPS funds in London and to appoint and monitor fund managers to ensure that fee savings are achieved without impacting on performance. As well as appointing active managers, LCIV provides access to lower cost index-tracker funds managed by Blackrock and Legal and General Investment management.



At the end of 2021/22, the London Borough of Sutton Pension Fund had 44% of its assets managed by LCIV with a further 20% managed by Legal and General. The reduction in the management fees of individual managers will also need to cover the running costs of LCIV. The table below shows that the Fund is making contributions to the running costs of LCIV by paying an annual subscription and a development charge. Overall, the Fund has made a cumulative saving of £623k after LCIV expenses. LCIV has been operating for 8 years and is not yet self-financing as London funds still have assets to move across, as LCIV continues to expand its product offering to meet the strategic requirements of the London LGPS funds. LCIV currently has 23 funds with £13.9bn of assets under management (excluding the life funds).

	2017/18	2018/19	2019/20	2020/21	2021/22	Cumulative
	£’000	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**
Set up Costs						
Share purchase	-	-	-	-	-	-
Annual subscription	25	25	25	25	25	125
Development funding charge	75	65	65	85	85	375
Other	-	4	4	4	-	12
Transition Costs						-
Fee Savings	(176)	(253)	(129)	(136)	(441)	(1,135)
Net Savings Realised	**(76)**	**(159)**	**(35)**	**(22)**	**(331)**	**(623)**

The table below shows how the management costs of the Fund compare between those managed by LCIV and the Fund’s existing managers. The Fund has 2 multi-asset fund managers with LCIV, which is a more expensive asset class than bonds or equities, although it is cheaper than property or infrastructure.

	Asset Pool	Non-Asset Pool	Fund total
	Total	Total	
	£'000	£'000	£'000
Management fees	1,779	2,519	4,298
Transaction costs	553	283	837
Custody fees	48	58	106
Performance fees	3	-	3
Total	**2,384**	**2,860**	**5,245**

6. SCHEME ADMINISTRATION

Service arrangements

The shared pensions administration service was formed on 1 April 2016 to provide the Local Government Pension Scheme (LGPS) administration function for both the Sutton Council Pension Fund and the Kingston Council Pension Fund. The team is hosted by Sutton Council and delivers its services to a total membership of circa 30,000 and 100 employers across the two funds.

The service has the responsibility to:

- Publish annual benefit statements to active and deferred members
- Publish pension savings statements to affected members
- Apply the annual pensions increase as directed by HM Treasury
- Maintain a membership database
- Process tasks (such as, retirements and transfers in and out) in accordance with the performance standards
- Maintain a 'breaches of law' register and notify The Pension Regulator of any materially significant breaches. To this extent there has been one breach with regards to Annual Benefits Statements not being issued on time. This is referenced in the Fund's breaches register.
- Ensure that any IDRP and corporate complaint cases are dealt with in a timely manner

The member self-service portal (Pensions Online) can be accessed at pensions.sutton.gov.uk. For more information, please search 'LGPS' on www.sutton.gov.uk.

Summary of activities

During the year the Fund has managed the following key projects/major pieces of work:

McCloud remedy project
In 2014 and 2015 the Government introduced changes to public service pension schemes, including the LGPS, for future service, moving from final salary to career average revalued earnings (CARE) benefits and increasing the normal pension age to be in line with state pension age. The changes applied to existing members as well as new joiners, but older members were given protection against the changes. The Court of Appeal ruled that, in the Judges and Firefighters' Schemes, these changes were discriminatory against younger members and so the Government gave a commitment to make changes to all public service pension schemes to remove discrimination. The Department for Levelling Up, Housing and Communities (DLUHC) plans to remedy this by levelling up benefits for the affected members using a form of final salary underpin. Final regulations are expected to be effective from 1 October 2023.

The proposed changes will be extremely complex to administer and to communicate to members. At a fund level, administering authorities will need to identify those in scope of the proposed extended underpin, obtain the data needed to calculate final salary benefits from employers, update all scheme member records, calculate retrospective benefits, pay any underpayments, communicate with members and employers and make changes to systems and administrative processes to carry out ongoing administration under the new regime from the effective date. The fund has suitable project management arrangements in place and the project is on-track to meet the effective date of the changes.

Guaranteed Minimum Pensions (GMP) reconciliation project
Between April 1978 and April 1997 the minimum level of benefit payable to those that were contracted-out of the State Earnings Related Pension Scheme was known as a Guaranteed Minimum Pension (GMP), which still forms part of many members’ benefits. Contracting-out ended in April 2016 and since then, HM Revenue & Customs (HMRC) no longer tracks contracted-out rights. HMRC issued closure schedules to all affected schemes so they could compare the GMP amounts held by HMRC against the scheme records and challenge any differences. This is known as a GMP reconciliation. If errors are found in the scheme records, members may be being over or underpaid because the annual cost of living pension increases would have been misapplied.

Phase one of the exercise was completed in the Autumn of 2019 and analysed and investigated the scheme records to reconcile the fund's GMP amounts with HMRC. The outcome of this was that 24,050 (95%) of the member population was reconciled or descoped. The remaining 5% was in a stalemate or awaiting HMRC input.

The final phase has been on hold whilst the fund's software provider developed its system to deal with the rectifications processes required. The project is now restarting and the fund will begin the process of rectifying benefits, starting with those already in payment.

<u>Pensions Dashboard project</u>
The government's Pensions Dashboard programme plans to enable individuals to access their pensions information online (including State Pension), securely and all in one place, thereby supporting better planning for retirement and growing financial wellbeing. The LGPS staging date - the date by which our software needs to link to the dashboard - is currently September 2024.

The fund's software provider has created a working party for their local government clients to scope the requirements and this project has been added to the Pension Fund Business Plan.

Value for money statement

The Fund remains committed to enhancing value for money through its shared service arrangements and keeps the level of resources on the team under constant review. At the end of the year there was administration team structure of 17.6 FTE serving both Funds (8.8 FTE per Fund). Following recommendations in an independent strcuture and efficiency review, it was agreed to grow the structure to 23.4 FTE (11.7 FTE per Fund) to reflect the growing and more complex workload that the Fund is responsible for. In a ten-year period, the number of scheme employers has increased from 14 to 89 across both Funds and membership has risen by approximately 50%.

Improving data quality is vital to providing value for money services because poor data can impact the Fund's valuation of liabilities and also lead to overpayments in individual cases. To mitigate this, pensions membership data is reviewed at least annually and a scheme return that includes Common and Scheme Specific Data scores is submitted to The Pensions Regulator. This year the scores were 92% and 59% respectively. In order to improve these scores and the underlying data quality, the Fund engages a data services provider to undertake monthly mortality screening and lost contact address tracing. The Fund is also working with its software provider to identify bulk solutions to certain validation issues and is in the process of implementing a data improvement policy and plan.

Data analysis

Membership data

Active	Deferred	Pensioner	Undecided leaver	Total
5,928	5,232	4,424	N/A	15,584

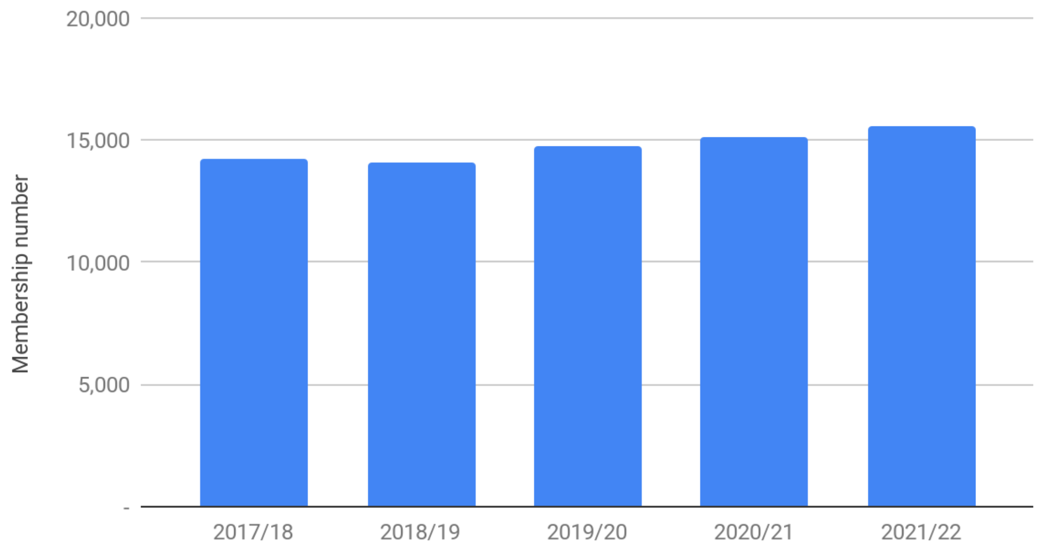
New pensioners

Normal retirement	Early retirement	Ill-health	Total
110	104	3	217

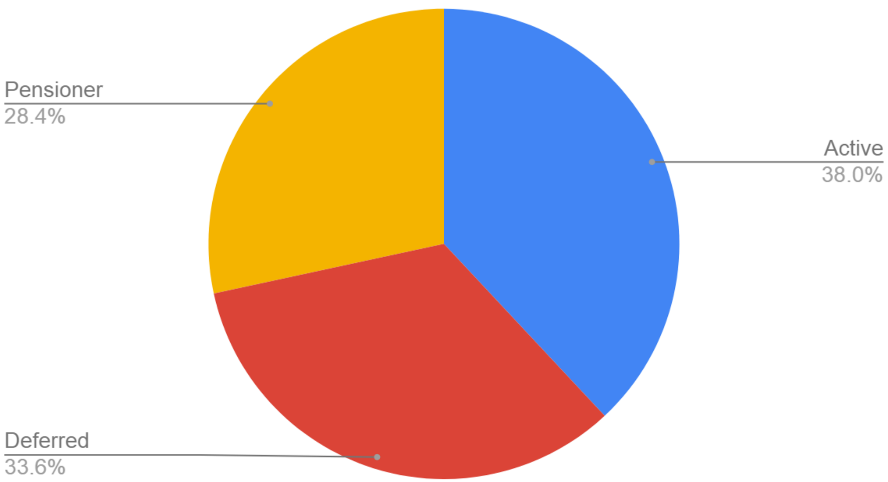
Employer numbers

	With active members	No active members but with some outstanding liabilities	Total
Scheduled body	45 (inc. Sutton Council)	2	47
Admitted body	14	18	32
Total	59	20	79

Membership Numbers over 5 years



Membership Type 2021/22



7. GOVERNANCE

Role of Pension Committee

The Pension Committee is responsible for all matters relating to the Pension Fund administered by the London Borough of Sutton on behalf of participating employers. The functions of the Committee, as set out in the Council's Constitution, are below:

Purpose

To be responsible for all matters relating to the Pension Fund operated by the London Borough of Sutton on behalf of all participating employers.

Function

The function of the Pension Committee is:

1. To decide upon the investment policy and strategy of the Fund and arrangements for compliance with all other requirements of government statutes and regulations concerning the Local Government Pension Scheme.

2. To approve all policy statements required or prepared under the LGPS Regulations or any other relevant statute, regulation or statutory guidance.

3. To receive and consider regular reports from each pension fund manager on investment strategy, performance, transactions and other related matters concerning their element of the Council's portfolio.

4. To consider the performance of fund managers in relation to:

- the Council's performance targets for the manager; and
- issues concerning the liabilities and assets of the Fund.

5. To appoint managers for the Fund and professional advisers to the Committee, as required.

6. To consider actuarial valuation reports from the actuary and agree recommendations concerning implications for the Pension Fund, including investment strategy and funding arrangements.

7. To agree arrangements for the administration of the Pension Fund including communication with Fund members.

8. To consider and decide upon any other relevant matter relating to the Council’s Pension Fund.

The Committee consists of 6 elected Members of the Council and it meets at least four times a year. Members have full voting rights. The membership of the Committee for 2021/22 was as follows:

Councillor Jill Whitehead (Chair)
Councillor Edward Joyce (Vice Chair)
Councillor Muhammad Sadiq
Councillor Sam Weatherlake
Councillor Eric Allen
Councillor Peter Geiringer

	Councillor Jill Whitehead	Councillor Edward Joyce	Councillor Muhammad Sadiq	Councillor Sam Weatherlake	Councillor Eric Allen	Councillor Peter Geiringer	Counciller Drew Heffernan (Substitute)	Councillor Richard Clare (Substitute)	Councillor Param Nandha (Substitute)
Committee attendance									
15 March 2022	✓	✓	✓	✓	✓	✓			
14 December 2021									
21 September 2021	✓	✓		✓	✓	✓		✓	
22 June 2021	✓	✓	✓	✓	✓	✓			
Training at committee									
London CIV - Private Debt	✓	✓	✓	✓	✓	✓			
London CIV - Renewable Infrastructure	✓	✓		✓	✓	✓		✓	
Pensions Shared Service Training Day	✓	✓			✓	✓	✓		

Role of Pension Board

The Pension Board was established by Full Council at the meeting held on 2 March 2015. An independent Chair was duly appointed. The Board's current Terms of Reference are:

Purpose

The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. In particular to assist the Administering Authority to:

1. secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;

2. to ensure the effective and efficient governance and administration of the Scheme.

Function

The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this core function the Board may determine the areas it wishes to consider including but not restricted to:

1. Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.
2. Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.
3. Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.
4. Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.
5. Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.
6. Monitor complaints and performance relating to the administration and governance of the scheme.
7. Assist with the application of the Internal Dispute Resolution Process.
8. Review the complete and proper exercise of Pensions Ombudsman cases.

9. Review the implementation of revised policies and procedures following changes to the Scheme.
10. Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
11. Review the complete and proper exercise of employer and administering authority discretions.
12. Review the outcome of internal and external audit reports.
13. Review draft accounts and Fund annual report.
14. Review the compliance of particular cases, projects or process on request of the Committee.
15. Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

1. Assist with the development of improved customer services.
2. Monitor performance of administration, governance and investments against key performance targets and indicators.
3. Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
4. Monitor investment costs including custodian and transaction costs.
5. Monitor internal and external audit reports.
6. Review the risk register as it relates to the scheme manager function of the authority.
7. Assist with the development of improved management, administration and governance structures and policies.
8. Review the outcome of actuarial reporting and valuations.
9. Assist in the development and monitoring of process improvements on request of Committee.
10. Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.
11. Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.

In support of its core functions the Board may make a request for information to the Committee with regard to any aspect of the Administering Authority’s function. Any such request should be reasonably complied with in both scope and timing.

In support of its core functions the Board may make recommendations to the Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

The Board consists of 6 voting members; 3 scheme member representatives, 3 employer representatives and an independent Chair. During 2021/22 the following persons held these posts:

Chair

Jonathan Bunt

Councillor Representatives

Councillor Richard Clifton

Councillor Nali Patel

Member Representatives

Michael Curran (Retired LBS employee)

William Cody (Trade Union representative)

Chris Reeve (Contributing LBS employee)

Employer Representatives

Angela Russell (Sutton Housing Partnership)

Andrew Theobald (Vice-Chair)

Vacancy

	Jonathon Bunt (Chair)	Michael Curran	William Cody	Chris Reeve	Andrew Theobald (Vice-Chair)	Angela Russell	Vacant Employer Representative	Councillor Nali Patel	Councillor Richard Clifton
Board attendance									
31 March 2022	✓	✓		✓	✓				
16 December 2021	✓	✓		✓	✓	✓		✓	
19 August 2021	✓	✓		✓	✓	✓			✓
Training									
Pensions Shared Service Training Day	✓	✓							✓

The Pension Committee and the Pension Board were supported during the year by the Strategic Director - Resources (S151 Officer), the Assistant Director, Finance, Head of Pensions Investments (shared service) and the Head of Insurance and Pensions Administration (shared service). During the year the Fund's investment adviser (Mercer) and actuary (Hymans) attended Board meetings to provide advice, support and training.

Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013 (as amended) require Funds to prepare, publish and maintain a Governance Compliance Statement and to measure their governance arrangements against a set of best practice principles. The assessment should provide a statement of "full", "partial" or "non-compliance", with further explanation provided for any non or partial compliance. The key issues covered by the best practice principles are:

- Formal committee structure
- Committee membership and representation
- Selection and role of lay members
- Voting rights
- Training, facility time and expenses

The Governance Compliance Statement is shown at Section 11.

Risk Management

Responsibility for the Fund's risk management strategy sits with the Pension Committee. Significant emerging and persistent risks are recorded in the Pension Fund Risk Register, which is reviewed regularly by the committee. The register is also reviewed by the Pension Board in its role of assisting the Council with securing compliance with control arrangements. The register is managed and maintained by the Strategic Director - Resources and reviewed by Internal Audit.

Risks are identified from relevant sources of information, such as management reports and from reviews undertaken by independent advisers. The actual scores are recorded in the risk register, along with gross and net risk scores (likelihood x impact) that determines the RAG ratings. The net score indicates the exposure arising from a risk after mitigation measures have been applied.

The Fund's key long-term risk is that assets fall short of liabilities such that there are insufficient assets to pay the pensions to members. Investment objectives are set by the Pension Committee with the aim of maximising long-term investment returns within an agreed risk tolerance level to mitigate this risk.

Investment risk and performance are monitored and reviewed regularly by Council Officers. The Pension Committee reviews investment performance on a quarterly basis supported by its investment adviser, Mercer.

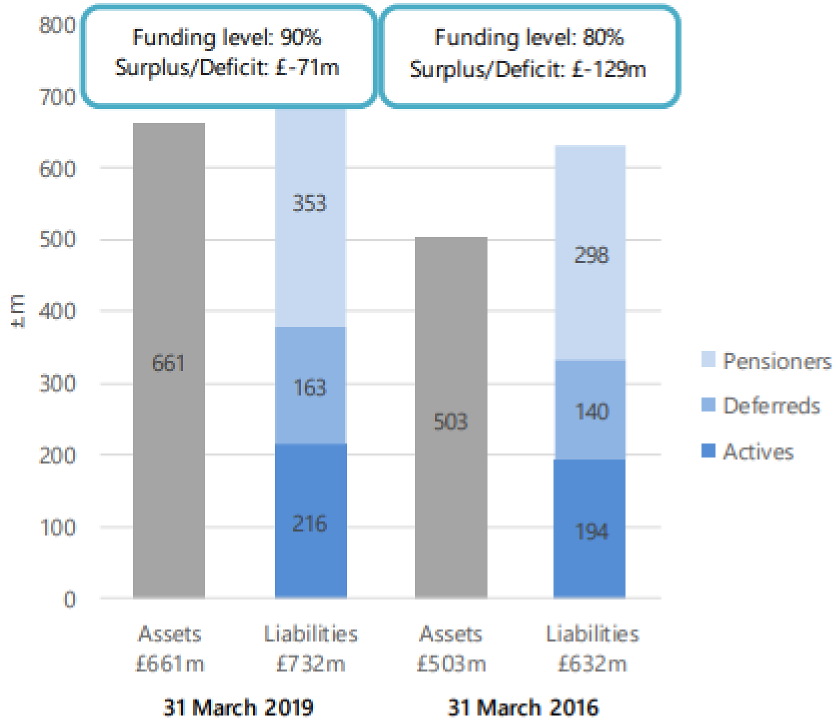
Third party risks, such as non or late payment of contributions is monitored and managed by the Council.

Assurance over the systems operated by the Fund's investment managers and custodian is secured by obtaining relevant documentation, including reports about their internal control environment.

A formal review of the robustness of the Pension Fund's accounting systems is undertaken by its external auditors, Grant Thornton, as part of the annual audit.

8. ACTUARIAL REPORT

The Pension Fund is required by regulations to have an assessment every 3 years of its pension liabilities and the assets available to pay for them. The last triennial valuation took place in 2019 and the results are summarised in the table below. This shows the Fund had a deficit of £71m which represents a funding level of 90%. This compares with a funding level of 80% at the previous valuation in 2016. The full valuation report can be found here: [LBS AV 2019] The next valuation is due in 2022.



9. EXTERNAL AUDIT REPORT

Independent auditor's report to the members of London Borough of Sutton on the pension fund financial statements of London Borough of Sutton

Opinion

We have audited the financial statements of London Borough of Sutton Pension Fund (the 'Pension Fund') administered by London Borough of Sutton (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Strategic Director - Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Strategic Director - Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Strategic Director - Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Strategic Director - Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Strategic Director - Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Strategic Director - Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Strategic Director - Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director - Resources. The Strategic Director - Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director - Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Strategic Director - Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditors responsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit and Governance Committee, concerning the Authority's policies and procedures relating to:
    - the identification, evaluation and compliance with laws and regulations;
    - the detection and response to the risks of fraud; and
    - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
    - journal entries that altered the Fund's financial performance for the year;
    - potential management bias in determining accounting estimates, especially in relation to the calculation of the valuation of the Fund's Investment Assets

- Our audit procedures involved:
    - evaluation of the design effectiveness of controls that the Strategic Director - Resources has in place to prevent and detect fraud;
    - journal entry testing, using data analytics to consider all journal entries against specific criteria to identify entries we considered to be of higher risk of fraud. Such criteria included journals with unusual values, journals posted after the year end, journals with a material impact on the Fund's financial position for the year and journals created by senior managers;
    - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
    - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
    - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
    - knowledge of the local government pensions sector
    - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
    - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
    - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Iain Murray

Iain Murray, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

8 February 2022

10. PENSION FUND ACCOUNTS 2021/22

These show the income and expenditure of the Sutton Local Government Pension Fund in relation to current employees and pensioners, investment transactions and the position of the Fund at year end including future liabilities.

Sutton Pension Fund Account for the year ended 31 March 2022

2020/21			2021/22
£'000		Note	£'000
	Dealings with members, employers and others directly involved in the Fund		
(40,766)	Contributions	7	(33,231)
(3,314)	Transfers in from other pension funds	8	(3,665)
(44,080)			(36,896)
27,569	Benefits	9	30,193
5,674	Payments to and on account of leavers:	10	20,439
33,243			50,632
(10,837)	Net (additions) / withdrawals from dealings with members		**13,736**
6,510	Management expenses	11	6,571
(4,327)	Net (additions)/withdrawals including fund management expenses		20,307
	Returns on Investments		
(11,813)	Investment income	12	(9,368)
27	Taxes on income	13	24
(156,201)	(Profit) loss on disposal of investments and changes in the market value of investments	14b	(53,419)
(167,987)	**Net (Return)/Loss on Investments**		**(62,763)**
(172,314)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(42,456)
(640,066)	Opening Net Assets of the Scheme		**(812,380)**
(812,380)	Closing Net Assets of the Scheme		**(854,836)**

Sutton Pension Fund Net Assets Statement for the year ended 31 March 2022

2020/21		Note	2021/22
£'000			**£'000**
150	Long term assets		150
807,604	Investment Assets	14	857,504
807,754	Total Net Investments		**857,654**
6,755	Current Assets	20	15,216
(2,129)	Current Liabilities	21	(18,034)
812,380	Net Assets of the Fund available to fund benefits at the end of the reporting period		**854,836**

PF Note 1 - Description of the Fund

a) General

The London Borough of Sutton Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Sutton.

The Fund is governed by the Public Service Pensions Act 2013 and is administered under the following regulations:

- the LGPS Regulations 2014 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- the LGPS (Management and Investment of Funds) Regulations 2016
- the LGPS (Amendment) Regulations 2018, 2019 and 2020

The Scheme is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Sutton and the admitted and scheduled bodies in the Pension Fund.

These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement.

b) Pension Committee

The Council has delegated oversight of the Fund to the Pension Committee who make recommendations on the investment policy most suitable to meet the liabilities of the Fund. The Committee is made up of six Members of the Council each of whom has voting rights.

The Committee considers the views of the Strategic Director - Resources (S151 Officer) and obtains, as necessary, advice from the Fund's appointed investment advisers, fund managers and actuary. The implementation of these decisions is delegated to the Strategic Director - Resources (S151 Officer).

c) Membership

Although Scheme employers are required to auto enrol employees into the LGPS, membership of the LGPS is voluntary and employees are free to choose whether to remain in the Scheme or to "opt out" and make their own personal arrangements outside the Scheme. Organisations participating in the London Borough of Sutton Pension Fund include:

- Scheduled bodies which are local authorities or other 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 admission 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 to the private sector. This includes designated admitted bodies.

PF Note 1 - Description of the Fund (continued)

Member bodies at 31 March 2022 were as follows:

Scheduled bodies	Scheduled bodies	Admitted bodies
Carew Academy	Nonsuch High School for Girls	Heritage Care (formerly Community Options)
Carshalton Boys Sports College	Overton Grange School	Compass Catering - Overton Grange
Carshalton High School for Girls	Sutton Grammar School	Mitie TFM (inc. Mitie Security)
Cheam High School	Wallington County Grammar School	Sports and Leisure Management (SLM)
Cheam Park Farm Primary Academy	Wallington High School for Girls	Citizens Advice - Sutton
Glenthorne High School	Wandle Valley Academy	Orchard Hill College
Harris Junior Academy Carshalton	Westbourne Primary School	Orchard Childcare
Wilson's School	Beddington Park Primary School	Caterlink
Green Wrythe Primary School	Cheam Common Junior Academy	Encompass LATC
Avenue Primary School	Tweeddale Primary School	Cognus
Brookfield Primary Academy	Cheam Fields Primary Academy	Ridgecrest Cleaning - St Philomena’s
Victor Seymour Infants' School	Link Primary School	DB Services
All Saints Carshalton CofE Primary School	Rushy Meadow Primary Academy	PlayWise Learning CIC
Link Secondary School	Cheam Common Infants' Academy	Saba Park Services
Manor Park Primary Academy	Cirrus Primary Academy Trust	
Wallington Primary Academy	Orchard Hill College Academy Trust (OHCAT)	

PF Note 1 - Description of the Fund (continued)

Scheduled bodies	Scheduled bodies	Administering Authority
Stanley Park Infants School	Harris Academy Sutton	London Borough of Sutton
Barrow Hedges Primary School	The Limes College	
Abbey Primary School	LEO Academy Trust	
Girls' Learning Trust	Oaks Park High School	
Addington Valley Academy	Sutton Housing Partnership	
Bandon Hill Primary School	Greenshaw High School	

PF Note 1 - Description of the Fund (continued)

The following table summarises the membership numbers of the scheme:

2020/21		2021/22
No.		**No.**
62	Number of Employers with active members	59
	Active Members	
2,813	London Borough of Sutton	2,596
2,671	Scheduled bodies	2,925
414	Admitted bodies	407
5,898		5,928
	Deferred Members	
3,953	London Borough of Sutton	4,000
794	Scheduled bodies	1,013
179	Admitted bodies	219
4,926		5,232
	Pensioners (including Dependents)	
3,832	London Borough of Sutton	3,899
324	Scheduled bodies	388
114	Admitted bodies	137
4,270		4,424
15,094	Total	**15,584**

PF Note 1 - Description of the Fund (continued)

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th.

Key details of the scheme's variants are shown in the table below. Accrued pension is uprated annually in line with the Consumer Prices Index.

	Service pre 1 April 2008	Service 1 March 2008 to 31 March 2014	Service post 31 March 2014
Pension	Accrual rate per annum of 1/80th of final pensionable pay	Accrual rate per annum of 1/60th of final pensionable pay	Accrual rate per annum of 1/49th of current year's pensionable pay
Lump sum	Automatic lump sum of 3 x pension. Option to exchange annual pension for tax free lump sum at a rate of £1 pension for £12 lump sum up to a maximum of 25% of total pension pot.	No automatic lump sum. Option to exchange annual pension for tax free lump sum at a rate of £1 pension for £12 lump sum up to a maximum of 25% of total pension pot.	

There are other benefits provided by the LGPS including early retirement, disability pensions and death benefits. Further information is available here - https://www.sutton.gov.uk/

e) Funding

The Pension Fund is financed by contributions from employees, employers (including the Council, admitted and scheduled bodies) and from the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2021. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

In 2021/22, employer contribution rates ranged from 14.0% to 33.5% of pensionable pay. Employer contribution rates payable from 1 April 2021 were set by the triennial valuation as at 31 March 2019, the results of which were published on 31 March 2020. The Fund excludes teachers, who have a separate Teachers Pensions Scheme managed by the Teachers Pensions Agency. The Fund also excludes those contributing to the NHS Pensions Scheme.

PF Note 2 - Basis of preparation

The statement of accounts summarises the Fund's transactions for the 2021/22 financial year and its position as at 31 March 2022. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2021/22' (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not provide for 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 IAS 19 basis, is disclosed at Note 19 of these accounts.

Accruals Concept

Income and expenditure has been included in the accounts on an accruals basis. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The adequacy of the Fund to pay future pensions and other benefits is reported upon separately in these accounts.

Valuation of Investments

Investments are stated at their market values as at 31 March 2022 and are determined as follows:

- All investments priced within the Stock Exchange Electronic Trading Service (SETS), a recognised or designated investment exchange or over-the-counter market, are valued at the bid-market prices at close of business on the exchange or market on which the investment trades, or at the last trading price recorded.
- Securities which are not covered by the above are valued at their estimated realisable value. Suspended securities are valued initially at the suspended price but are subject to constant review.
- Investments held in foreign currency have been valued on the relevant basis and translated into Sterling at the rate ruling at the balance sheet date.
- Transactions in foreign currency are translated into Sterling at the exchange rate ruling at the time of transaction.

PF Note 3 - Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution Income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer's 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. (Augmentation is the cost of additional membership awarded by an employer).

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.

Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

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.

c) Investment income

• Interest income
Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination.

Income includes the amortisation of any discount or 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.

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

• Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue and accrued at year end if not received at that time.

• Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

d) Benefits payable

Pensions and lump sum benefits 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 Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of 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. Interest from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Investment income, Note 12, is shown gross of irrecoverable taxes deducted. The Fund is reimbursed VAT by HM Revenue and Customs, and the accounts are shown exclusive of VAT.

f) Management Expenses

Pension Fund management expenses are accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016).*

• Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension Administration Team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund

• Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management and accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

• 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 their management and therefore increase or decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included here.

Net Assets Statement

g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. 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 asset are recognised by the Fund.

h) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS26 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (Note 19).

i) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the Pension Fund (see Note 22). AVCs are paid to the AVC providers by employers, specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement from the AVC provider company showing the amount held in their account and the movements in year.

PF Note 4 - Critical judgements in applying accounting policies

In applying the accounting policies as set out in Note 3 above, the Council has had to make certain critical judgments about complex transactions or those involving uncertainty about future events.

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 within accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised at Note 18.
This estimate is subject to significant variances based on changes to the underlying assumption.

PF 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 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 in the forthcoming year, 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 pensions 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 Authority with expert advice about the assumptions to be applied.	The sensitivity of the net Pension Fund liability to a change in assumptions can be measured. For example a 0.1% decrease in the discount rate assumption would result in an approximate increase of £21m in the Fund's pension liability; a one year increase in member life expectancy would increase the liability by approximately £50m and a 0.1% increase in the rate of salary increase would increase the liability by approximately £2m.
	There is further uncertainty arising from a legal challenge to the Government's transitional arrangements following the public sector pension reforms in 2015. The McCloud case was upheld by the Court of Appeal in December 2018 which found the transitional arrangements to be discriminatory on the grounds of age and gender. Following consultation by government, the key features of the proposed remedy include levelling up benefits for the younger members who suffered discrimination using a form of final salary underpin. Final regulations are expected to be effective from 1 April 2023.	The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of assumptions about potential remedies. The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of remedies and assumptions. The Council's actuaries have applied the same assumptions as used to prepare the IAS26 report to the remedies in the GAD review which indicate a potential increase in pension liabilities of 0.3%. This figure is based on a worst case scenario and the impact will be reduced if the remedies proposed are not as extensive as in the original GAD report.
Unquoted investments	The assets held by the Pension Fund are managed by fund managers on a pooled basis. Some of these assets are unquoted and values are estimated by fund managers using comparable market data, indices and data from third parties, as well as projected revenue streams associated with the assets. Property, private debt and infrastructure funds do not have published prices, are not regularly traded and have many unobservable inputs feeding into their valuations and so are treated as level 3.	The potential impact of this uncertainty cannot be measured accurately. The total of level 3 funds held by the Pension Fund are valued at £111.1m, and the variation around this value is estimated to be +/- 10%, which equates to +/- £11.1m.

PF Note 6 - Events after the reporting period end

The Statement of Accounts was authorised for issue by the Strategic Director - Resources (S151 Officer) on __ July 2022. At this date there was one non-adjusting event to report:

The value of the investments of the Fund at 31 May 2022 shows a decrease in market movement from £855.4m to £802.4m. This is a decrease of £53m or 6.2%.

At the date of authorisation the Council is not aware of any events that would require adjustment to these statements.

PF Note 7 - Contributions receivable

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain solvency of the Fund. The tables below show a breakdown of the total amount of employers' and employees' contributions.

By Category

2020/21		2021/22
£'000		**£'000**
(7,006)	Employees' contributions	(7,561)
	Employers' contributions	
(18,284)	Normal Contributions	(23,419)
(15,321)	Deficit Recovery Contributions	(1,709)
(155)	Augmentation contributions	(541)
(33,760)		**(25,669)**
(40,766)		**(33,231)**

Deficit recovery contributions of £15,321k in 2020/21 include a prepayment from the Council totalling £7,595k for 2021/22 and 2022/23.

PF Note 7 - Contributions receivable (continued)

By Authority

2020/21		2021/22
£'000		**£'000**
(27,090)	London Borough of Sutton	(18,192)
(10,617)	Scheduled bodies	(12,640)
(3,059)	Admitted bodies	(2,399)
(40,766)		**(33,231)**

PF Note 8 - Transfers in from other pension funds

2020/21		2021/22
£'000		**£'000**
(3,314)	Individual transfers	(3,665)
-	Group transfers	-
(3,314)		**(3,665)**

During the years ended 31 March 2022 and 31 March 2021, no group transfers were received into the Fund.

PF Note 9 - Benefits payable

The tables below show a breakdown of the total amount of benefits payable by category and by authority:

By Category

2020/21		2021/22
£'000		**£'000**
23,659	Pensions	26,221
3,051	Commutation and Lump sum retirement benefits	3,845
859	Lump sum death benefits	127
27,569		**30,193**

By Authority

2020/21		2021/22
£'000		**£'000**
24,061	London Borough of Sutton	29,199
2,355	Scheduled bodies	888
1,153	Admitted bodies	106
27,569		**30,193**

PF Note 10 - Payments to and on account of leavers

2020/21		2021/22
£'000		**£'000**
90	Refunds to members leaving service	158
789	Group transfers	15,450
4,795	Individual transfers	4,831
5,674		**20,439**

During the year ended 31 March 2022 an accrual was made for £15.5m due to Croydon Council for the bulk transfer of South London Waste Partnership.

PF Note 11 - Management expenses

2020/21		2021/22
£'000		**£'000**
822	Administration Expenses	1,038
5,488	Investment Management Expenses	5,245
200	Oversight and Governance	288
6,510		**6,571**

The above table includes audit costs within Oversight and Governance which total £29,810 in 2021/22 (£33,830 in 2020/21).

PF Note 11a - Investment management expenses

Investment Management Expenses are further analysed below in line with CIPFA Guidance on Accounting for Management Costs in the LGPS.

2020/21		**2021/22**
£'000		**£'000**
3,632	Management Fees	4,299
417	Performance Fees	3
38	Custody Fees	106
1,401	Transaction Costs	837
5,488		**5,245**

PF Note 11b - External audit costs

2020/21		**2021/22**
£'000		**£'000**
34	External audit costs	30
34		**30**

PF Note 12 - Investment income

2020/21		2021/22
£'000		**£'000**
	Pooled Investments:	
(3,366)	- Equities	(2,892)
(1,121)	- Property	(1,410)
(1,486)	- Multi Asset Credit	(2,268)
(1,980)	- Diversified Growth Funds	(1,781)
(3,848)	- Infrastructure	(1,012)
(12)	Interest on Cash Deposits	(5)

PF Note 13 - Taxes on income

2020/21		2021/22
£'000		**£'000**
27	Withholding tax - pooled	24
27		**24**

PF Note 14 - Investments

2020/21 (re-stated)	**Investment Assets**	**2021/22**
£'000		**£'000**
	Pooled Investment Vehicles:	
487,462	Equities	466,057
87,910	Fixed Income	93,404
49,365	Property	56,371
56,508	Multi Asset Credit	86,694
96,150	Diversified Growth Funds	99,837
25,301	Infrastructure	37,664
	Private Debt	17,094
	Other Investment Balances:	
4,877	Cash deposits	385
31	Accrued income and recoverable taxes	(2)
807,604	Total Net Investment Assets	**857,504**

PF Note 14a - Analysis of Pooled Investment Vehicles

Pooled Investment Vehicles:				Other managed funds:			
2021/22	ACS	Unit trusts	Unitised insurance policies	OEIC	SICAV	Insurance contract	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equities	225,449	166,187	74,422	-	-	-	**466,057**
Fixed Income	-	-	93,404	-	-	-	**93,404**
Property	-	39,973	-	-	16,398	-	**56,371**
Multi Asset Credit	29,719	-	-	56,974	-	-	**86,694**
Diversified Growth Funds	99,837	-	-	-	-	-	**99,837**
Infrastructure	-	-	-	-	37,664	-	**37,664**
Private Debt	-	17,094	-	-	-	-	**17,094**
	355,005	**223,254**	**167,826**	**56,974**	**54,062**	**-**	**857,121**

Pooled Investment Vehicles:				Other managed funds:			
2020/21 (re-stated)	ACS	Unit trusts	Unitised insurance policies	OEIC	SICAV	Insurance contract	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equities	142,458	278,053	66,951	-	-	-	**487,462**
Fixed Income	-	-	37,045	-	-	50,865	**87,910**
Property	-	34,107	-	-	15,258	-	**49,365**
Multi Asset Credit	-	-	-	56,508	-	-	**56,508**
Diversified Growth Funds	96,150	-	-	-	-	-	**96,150**
Infrastructure	-	-	-	-	25,301	-	**25,301**
Private Debt	-	-	-	-	-	-	**-**
	238,608	**312,160**	**103,996**	**56,508**	**40,559**	**50,865**	**802,696**

PF Note 14b - Reconciliation of movements in investments

2021/22	Value 31 March 2021	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	487,462	127,850	(181,831)	32,576	466,057
- Fixed Income	87,910	61,455	(61,487)	5,526	93,404
- Property	49,365	-	(303)	7,309	56,371
- Multi Asset Credit	56,508	32,268	(432)	(1,650)	86,694
- Diversified Growth Funds	96,150	1,781	(1,076)	2,982	99,837
- Infrastructure	25,301	9,407	(2,692)	5,648	37,664
- Private Debt	-	16,277	(161)	978	17,094
Sub-total Investments	**802,696**	**249,038**	**(247,982)**	**53,369**	**857,121**
Other Investment Balances:					
Cash deposits	4,877			52	385
Accrued income and recoverable taxes	31			(2)	(2)
Net Investment Assets	**807,604**			**53,419**	**857,504**

PF Note 14b - Reconciliation of movements in investments (continued)

2020/21 (re-stated)	Value 31 March 2020	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	337,907	14,789	(1,346)	136,113	487,462
- Fixed Income	85,569	-	(226)	2,567	87,910
- Property	49,784	65	(292)	(192)	49,365
- Multi Asset Credit	48,067	1,435	(382)	7,388	56,508
- Diversified Growth Funds	84,808	1,980	(961)	10,323	96,150
- Infrastructure	25,048	2,729	(2,739)	263	25,301
- Private Debt	-	-	-	-	-
Sub-total Investments	**631,183**	**20,998**	**(5,946)**	**156,462**	**802,696**
Other Investment Balances:					
Cash deposits	1,266			(261)	4,877
Accrued income and recoverable taxes	31			0	31
Net Investment Assets	**632,480**			**156,201**	**807,604**

PF Note 14c - Investments analysed by fund manager

The market value of the investment assets under the management of each fund manager as at 31 March 2022 is shown below. Fund's assets are held in unitised form. Excluding equities, the largest unitised holding is Legal & General Over 5 Year Index Linked Gilts Fund, representing 10.9% of net assets.

31 March 2021			31 March 2022	
Market Value	**% of total**	**Fund Manager**	**Market Value**	**% of total**
£'000	**%**		**£'000**	**%**
		Investments managed by London Collective Investment Vehicle		
45,970	5.7%	Pyrford - LCIV Global Total Return Fund	47,948	5.6%
50,179	6.3%	Baillie Gifford - LCIV Diversified Growth Fund	51,889	6.1%
142,461	17.7%	Newton - LCIV Global Equity Fund	103,823	12.1%
-	0.0%	RBC - LCIV Sustainable Equity Fund	121,626	14.2%
-	0.0%	CQS - LCIV Multi Asset Credit Fund	29,720	3.5%
-	0.0%	Pemberton & Churchill - LCIV Private Debt Fund	17,094	1.9%
238,610	29.7%		372,100	43.4%
		Investments managed outside of London Collective Investment Vehicle		
119,247	14.9%	Schroder Life QEP Global Active Value Fund	-	0.0%
158,806	19.7%	Harding Loevner Funds Plc Global Equity Fund	166,187	19.5%
66,951	8.3%	Legal & General All World Equity Index Fund	-	0.0%
-	0.0%	Legal & General - Future World Global Equity Index Fund	74,422	8.7%
37,045	4.6%	Legal & General Over 5 Year Index Linked Gilts Fund	93,404	10.9%
56,508	7.0%	M&G Alpha Opportunities Fund	56,974	6.6%
50,865	6.3%	M&G PP Index Linked Fund	-	0.0%
11,734	1.5%	LaSalle Investors UK Real Estate Fund of Funds	13,596	1.5%
22,373	2.8%	BlackRock UK Property Fund	26,376	3.1%
15,258	1.9%	Invesco Real Estate UK Residential Fund SCSp	16,398	1.9%
25,301	3.2%	Partners Group Direct & Global 2015 S.C.A., SICAV-SIF & Global 2012 S.C.A., SICAR	37,664	4.4%
564,088	70.2%		485,021	56.6%
802,698	**99.9%**	**Total**	**857,121**	**100.0%**

PF Note 15 - Fair value – basis of valuation

The basis of the valuation of each class of investment asset is in accordance with the guidance contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Asset and liability valuations are classified into three levels, according to the quality and reliability of information used to determine fair values. The investment assets of the Pension Fund are classed, as set out in the table below.

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. Cash and short term investment debtors and creditors are classified as level 1.

Level 2
Quoted prices are not available and valuation techniques use inputs that are based significantly on observable market data. Investment assets classified at level 2 are those where quoted market prices are not available; for example, where an investment is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
At least one input that could have a significant effect on valuation is not based on observable market data. Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data, and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. They include private equity and infrastructure investments. Assurances over the valuations are gained from the independent audit of the accounts.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments - equities	Level 1	Recognised at market value	Not required	Not required
Market quoted investments - pooled equities and bonds	Level 1	Published bid market price on final day of the accounting period	Not required	Not required
Pooled investments - equities and bonds	Level 2	Closing bid price where bid price published. Closing single price where single price published	NAV based pricing set on a forward pricing basis. Evaluated price feeds	Not required
Pooled property investments where regular trading does not take place	Level 3	Fair value as determined by independent valuers	NAV based pricing set on a forward pricing basis. Unobservable inputs include rental income and gross yield	Valuations of underlying properties could be affected by a range of variables, including changes to estimated rental growth, vacancy levels and construction costs

Pooled infrastructure investments	Level 3	EBITDA multiples, discounted cashflows, market comparable companies, replacement costs and adjusted net asset values	Discount factors, recent transaction prices, reported net asset values and fair value adjustments	Valuations could be affected by a range of variables, such as changes to expected cashflows, or the difference between audited and unaudited accounts

PF Note 15 - Fair Value - basis of valuation (continued)

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, 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 2022 and 31 March 2021.

2021/22	Potential variation in fair value	Value at 31 March 2022	Potential value on increase	Potential value on decrease
	+/-	£'000	£'000	£'000
Pooled Investment Vehicles:				
- Property	10%	56,371	62,008	50,733
- Infrastructure	10%	37,664	41,430	33,897
- Private Debt	10%	17,094	18,803	15,384
Total		**111,129**	**122,241**	**100,014**

2020/21	Potential variation in fair value	Value at 31 March 2021	Potential value on increase	Potential value on decrease
	+/-	£'000	£'000	£'000
Pooled Investment Vehicles:				
- Property	10%	49,365	54,300	44,427
- Infrastructure	10%	25,301	27,831	22,771

Total	74,666	82,131	67,198

All movements in the assessed valuation range derive from changes in the net asset value of the underlying property, infrastructure, private debt and real estate assets. The range in potential movement of 10% is caused by how this value is measured.

PF Note 15a - Fair value hierarchy

31 March 2021 (re-stated)					31 March 2022			
Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
				Pooled Investment Vehicles:				
301,265	186,197		487,462	Equities	391,636	74,421		466,057
	87,910		87,910	Fixed Income		93,404		93,404
		49,365	49,365	Property			56,371	56,371
	56,508		56,508	Multi Asset Credit		86,694		86,694
	96,150		96,150	Diversified Growth Funds		99,837		99,837
		25,301	25,301	Infrastructure			37,664	37,664
			-	Private Debt			17,094	17,094
301,265	**426,765**	**74,666**	**802,696**	**Financial Assets at fair value through profit and loss**	**391,636**	**354,356**	**111,129**	**857,121**

PF Note 15b: Reconciliation of fair value measurements within Level 3

2021/22	Value 31 March 2021	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2022
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	49,365	-	-	-	(303)	7,309	56,371
- Infrastructure	25,301	-	-	9,407	(2,692)	5,648	37,664
- Private Debt	-	-	-	16,277	(161)	978	17,094
Total	**74,666**	**-**	**-**	**25,684**	**(3,156)**	**13,935**	**111,129**

2020/21 re-stated	Value 31 March 2020	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2021
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	49,784	-	-	65	(292)	(192)	49,365
- Infrastructure	25,048	-	-	2,729	(2,739)	263	25,301
Total	**74,832**	**-**	**-**	**2,794**	**(3,031)**	**71**	**74,666**

PF Note 16a - Classification of financial instruments

		2020/21 (re-stated)				2021/22
Fair value through profit and loss	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**		**Fair value through profit and loss**	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial Assets			
			Pooled Investment Vehicles:			
487,462			Equities	466,057		
87,910			Fixed income	93,404		
49,365			Property	56,371		
56,508			Multi Asset Credit	86,694		
96,150			Diversified Growth Funds	99,837		
25,301			Infrastructure	37,664		
			Private Debt	17,094		
	10,241		Cash deposits		13,556	
	1,422		Sundry debtors		2,045	
802,696	**11,663**	**-**		**857,121**	**15,601**	**-**
			Long Term Assets			
	150		London CIV share capital		150	
802,696	**11,813**	**-**		**857,121**	**15,751**	**-**
			Financial Liabilities			

PF Note 16b - Net gains and losses on financial instruments

2020/21		2021/22
£'000		**£'000**
	Financial Assets	
156,462	Designated at fair value through profit and loss	53,369
(261)	Designated at amortised cost	50
156,201		**53,419**

PF Note 17 - Nature and extent of risks arising from financial instruments

Key risks

The Pension Fund's activities expose it to a variety of financial risks:

- market risk – the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.
- credit risk – the possibility that other parties might fail to pay amounts due to the Pension Fund.
- liquidity risk – the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.

Overall Procedures for Managing Risk

The Pension Fund's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013 and the associated regulations. These regulations set out permissible financial instruments, require the Administering Authority to maintain and invest on behalf of the Pension Fund in accordance with its investment principles, to take professional advice, to review investment performance and to operate a separate Pension Fund bank account. Overall these procedures require the Administering Authority to manage Pension Fund risk by maintaining and investing in accordance with a:

- Investment Strategy Statement;
- Funding Strategy Statement;
- Statement of Governance Policy;
- Governance Compliance Statement.

The Pension Fund Investment Strategy is reviewed at least triennially following actuarial valuation by the Pension Fund Committee, who monitor investment performance and compliance quarterly, including the internal control arrangements of external fund managers and the custodian.

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PF Note 17 - Nature and extent of risks arising from financial instruments (continued)

a) Market risk

Market risk is the risk of loss from fluctuations in equity, bond and commodity 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 and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset classes, geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short, is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund's Investment Strategy.

Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds, as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. Had the market price of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table below.

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's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

PF Note 17 - Nature and extent of risks arising from financial instruments (continued)

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 the functional currency of the Fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange rate movements to be 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2022, along with the impact that a 10% strengthening / weakening of the pound against the various currencies in which the Fund holds investments would have on the values

The value on increase and value on decrease for an individual currency exposure is calculated with reference to that currency's volatility, relative to GBP, over the three years to March 2022. Given that currency changes are not necessarily correlated it is not appropriate to sum the outputs from each currency. In calculating the increase and decrease at a total fund level, it is necessary to establish the change in value of the aggregate of currencies held. It is this change that is applied to the overall currency exposure.

Value as at 31/03/2021 (re-stated)	Value on 9.8% price increase	Value on 9.8% price decrease	Currency Exposure - Asset Type	Value as at 31/03/2022	Value on 10% price increase	Value on 10% price decrease
£'000	£'000	£'000		£'000	£'000	£'000
460,435	505,557	415,312	Overseas equities	445,900	490,491	401,310
11,734	12,884	10,584	Overseas property	13,596	14,956	12,237
28,095	30,848	25,342	Overseas multi asset credit	68,868	75,755	61,981
52,921	58,107	47,734	Overseas diversified growth funds	62,914	69,205	56,622
25,301	27,780	22,821	Overseas infrastructure	37,664	41,430	33,897

-	-	-	Overseas private debt	14,786	16,265	13,307
578,486	**635,176**	**521,793**	**Total assets available to pay benefits**	**643,728**	**708,102**	**579,354**

PF Note 17 - Nature and extent of risks arising from financial instruments (continued)

Other Price Risk -Sensitivity Analysis

Value as at 31/03/2021 (re-stated)	Change +/-	Value on increase	Value on decrease	Asset Type	Value as at 31/03/2022	Change +/-	Value on increase	Value on decrease
£'000	**%**	**£'000**	**£'000**		**£'000**	**%**	**£'000**	**£'000**
487,462	17.9	574,718	400,206	Equities	466,057	18.0	549,947	382,167
87,910	7.8	94,767	81,053	Fixed income	93,404	7.6	100,503	86,305
49,365	15.0	56,770	41,960	Property	56,371	15.1	64,883	47,859
56,508	8.4	61,255	51,761	Multi Asset Credit	86,694	9.6	95,017	78,371
96,150	10.2	105,957	86,343	Diversified Growth Funds	99,837	10.3	110,120	89,554
25,301	15.0	29,096	21,506	Infrastructure	37,664	15.1	43,351	31,977
	10.4	-	-	Private Debt	17,094	10.6	18,906	15,282
4,877	5.3	5,135	4,619	Cash	385	5.5	406	364
31		31	31	Other				
807,604		**927,729**	**687,479**	**Total**	**857,506**		**983,133**	**731,879**

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. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Pension Fund has selected bond managers who have an investment strategy that requires investment only in high investment grade and collateralised products and who use research and market knowledge to minimise exposure to credit risk. The Pension Fund uses a custodian to ensure that all money due is paid in full and on time. Internally invested cash is placed in an interest bearing account with the Council's bankers.

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 resources to meet its commitments. This will particularly be the case to meet the pensioner payroll costs and also cash to meet investment commitments. The Pension Fund currently remains cash flow positive with contributions exceeding payable pensions, though this is regularly monitored. The Council has immediate access to a proportion of its Pension Fund cash

holdings, as these are held in an instant access interest bearing account maintained by Council officers. Surplus funds are invested externally with fund managers. In the event of a funding shortfall, the LGPS regulations permit the administering authority to borrow on behalf of the Pension Fund for up to 90 days. If required, funds can also be called back from investment managers to meet liabilities.

PF Note 18 - Funding arrangements

Actuarial position

Rates of contributions paid by the participating Employers during 2021/22 were based on the actuarial valuation carried out as at 31 March 2019 by the Fund's actuary, Barnett Waddingham. The objectives of the Fund's funding strategy is:

- to ensure the long-term solvency of the Fund, so that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return; 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 aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of three years. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation, the fund was assessed as 90% funded (80% at the March 2016 valuation). This corresponded to a deficit of £71m (2016 valuation: £129m) at that time. Contribution increases will be phased in over the three-year period ending 31 March 2023 for both scheme employers and admitted bodies.

Contribution Rates

The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. Their contribution rates are calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of employers using the projected unit actuarial method.

The rates of contributions payable by each participating employer over the period 1 April 2020 to 31 March 2023 are set out in a certificate dated 31 March 2019 which is appended to the actuary's report on the actuarial valuation. For those bodies which have become separate employers within the Fund since the valuation date, their contribution rates have been calculated individually and certified by the Fund's actuary.

PF Note 18 - Funding arrangements (continued)

The total average contribution rate payable by employers consists of two elements; the primary rate and the secondary rate. The primary rate is the weighted average (by pensionable pay) of the individual employers' primary rates (after allowing for member contributions). The secondary rate is an adjustment to the primary rate, to arrive at the total rate each employer is required to pay, for example to allow for deficit recovery.

Average Contribution Rate	
Employer Future Service Rate (primary rate)	19.2%
Past service adjustment - 21 year spread (secondary rate)	6.6%
Total Average Employer Contribution Rate	**25.8%**

The following table shows a summary of the results of the 2019 valuation;

Past Service Position	31/03/2019
	£m
Past Service Liabilities	(732)
Market Value of Assets	661
Surplus (Deficit)	(71)
Funding Level	**90%**

The valuation was undertaken using principal assumptions as follows;

Financial Assumptions	31/03/2019
	Nominal
Discount Rate	4.7%
Salary Increases	3.6%

Pension Increases	2.6%

PF Note 18 - Funding arrangements (continued)

Assumed life expectancies at age 65 is as follows;

Demographic Assumptions	31/03/2019
Male pensioners	21.7
Male non-pensioners	23.1
Female pensioners	24.3
Female non-pensioners	25.8

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

PF Note 19 - Actuarial present value of promised retirement benefits

CIPFA’s Code of Practice requires the disclosure for the year ending 31 March 2022, of the actuarial valuation of promised retirement benefits as set out in IAS26, and that the actuarial present value should be calculated on an IAS 19 basis.

IAS26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the International Financial Reporting Standards (IFRS).

31 March 2021		31 March 2022
£'m		£'m

(1,283)	Actuarial present value of promised retirement benefits	(1,257)
808	Net fund assets available to fund benefits	855
(475)	Net Liability	**(402)**

PF Note 20 - Current assets

31 March 2021		31 March 2022
£'000		**£'000**
1,062	Contributions	1,587
142	Other debtors	458
187	Current receivables	-
5,364	Cash at Bank	13,171
6,755	Total Current Assets	**15,216**

PF Note 21 - Current liabilities

31 March 2021		31 March 2022
£'000		**£'000**
-	Transfers out	(15,450)
(280)	Refund of contributions	-
(561)	Other Creditors	(1,270)
(1,288)	Current payables	(1,314)
(2,129)	Total Current Liabilities	**(18,034)**

PF Note 22 - Additional voluntary contributions

A number of active Fund members have elected to pay additional voluntary contributions (AVCs) to increase their personal benefits. Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires that these are not paid into the Pension Fund.

The Council's approved AVC providers are Clerical Medical and Utmost (formerly Equitable Life). These are money purchase arrangements reporting annually at 31 May. Total contributions paid by members in Clerical Medical during 2021/22 were £119k (£101k in 2020/21), as below. There are no active contributors with Utmost.

31 May 2021		31 May 2022
£'000		**£'000**
101	Clerical Medical	119
101		**119**

At 31 May 2022, the total estimated value of the AVC funds with Clerical Medical and Utmost was £796k (£637k at 31 May 2021).

PF Note 23 - Related party transactions

The Council is a related party to the Fund and in accordance with the regulations the Council's expenses in administering the Scheme are charged to the Fund. The amount charged by the Council for 2021/22 was £920,851 (£719,123 in 2020/21)

Three of the Councillors voting on the Pension Committee are members of the Pension Fund.

The key management personnel for the Pension Fund are the same as for the Council as a whole. Their costs have been reasonably apportioned between the Pension Fund Accounts and the Authority's Accounts, and are within scheme administration and investment management expenses as above. The costs of the Strategic Director - Resources (S151 Officer) cannot reasonably be apportioned in this way. Extra disclosure can be seen in the Authority's accounts under the notes related to Senior Officers remuneration and Related Party Transactions.

PF Note 24 - Contingent liabilities and contingent assets

There are no known material contingent assets as at 31 March 2022. There are no outstanding contractual commitments and no material relating non-adjusting events occurring subsequent to the period end.

11. GOVERNANCE COMPLIANCE STATEMENT

Introduction

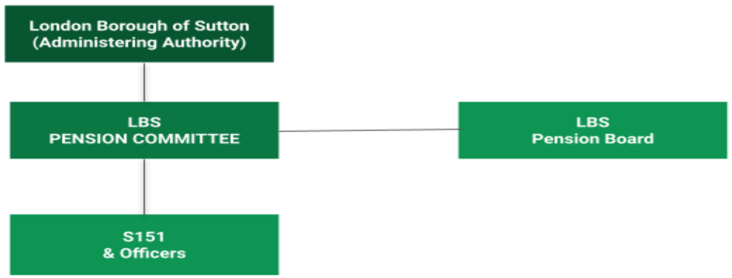
Regulation 55(1) of the Local Government Pension Scheme Regulations 2013 (SI2014-1146) requires the Administering Authority (Sutton Council) to maintain a statement, which assesses the pension fund governance arrangements against guidance from the Secretary of State, and to make revisions to the statement following a material change in the arrangements:

- Part 1 of this statement relates to the arrangements for pension fund administration.
- Part 2 relates to the arrangements for the new Local Pension Board, a stand-alone body.

By producing such a statement the Administering Authority is compliant with the legislation from the Secretary of State.

Governance Framework

The London Borough of Sutton ("the Council") is the Administering Authority for the London Borough of Sutton Pension Fund. The Council has delegated responsibility for the management and administration of the Pension fund to the Pension Committee which is assisted by the Pension Board. The governance framework for the Fund is set out in the chart below:



The Pension Board has been established under regulation 106 of the Local Government Pension Scheme Regulations 2013. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

- secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
- to ensure the effective and efficient governance and administration of the Scheme.

Governance Compliance - Pension Fund Committee

In accordance with Statutory Guidance, the following table sets out the extent to which the LB Sutton Pension Fund is compliant with the statutory guidance.

Requirement	Compliance	Comment
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The Council Constitution clearly sets out that responsibility for the management of the Pension Fund which is discharged through a formal decision-making committee: resides with the Pension Committee. The Pensions Committee also have a separate governance working document which contains great details on the roles and responsibilities of the Panel
Representatives of participating LGPS employers, and scheme members (including pensioner and deferred members) are members of either the main or secondary	Compliant	The Committee approved representatives of both employers and scheme members to be members of the Pension Committee

committee established to underpin the work of the main committee.		
Where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Council does not have a secondary Committee or Panel
Where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The Council does not have a secondary Committee or Panel
Representation		
All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: employing authorities (e.g. scheme employers), scheme members (including deferred and pensioner scheme members), independent professional observers, expert advisors (on an ad-hoc basis).	Compliant	The Committee approved representatives of both employers and scheme members to be members of the Pension Committee. The Committee has not appointed an independent professional observer but has appointed expert advisors who can attend Committee meetings when required.
Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	All members are treated equally regarding access to papers, meetings and training. They are given full opportunity and encouragement to contribute to the decision making process.

Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members receive induction training and further training to enable them to fulfil their roles and responsibilities. An annual training plan ensures that any knowledge and skill gaps are filled.
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	The policy on voting rights is clear and transparent. All elected members on the Pension Committee have equal voting rights, the Council's wider constitution does not yet provide voting rights for non-elected members of committees.
Training / Facility Time / Expenses		
In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	The Committee and the Board have adopted the CIPFA Knowledge and Skills Framework and an annual training plan for each body exists. Members have equal access to training and reimbursement of expenses to enable them to fulfil their roles and responsibilities.
Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The Fund's Training Policy applies equally to all members of the Pension Committee and Pension Board

Meetings (Frequency / Quorum)		
An administering authority's main committee or committees meet at least quarterly.	Compliant	The Pension Fund Committee meets with a quorum at quarterly intervals as required by its terms of reference.
An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Council does not have a secondary Committee or Panel
An administering authority who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	There are stakeholder representatives on the Committee. Consultation with key stakeholders takes place
Access		
Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	All members have equal access to papers, documents and advice.
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Committee's terms of reference enable it to consider any matter relevant to the Pension Fund. Wider scheme

		issues are evident in policy statements
Publicity		
Administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	Compliant	The Governance Policy and Communications Policy are published on the Council's website along with details of planned meetings of the Pension Committee that are open to stakeholders

Governance Compliance - Pension Board

Requirement	Compliance	Comment
Functions of the Board		
The terms should set out the function of the Board i.e. to assist the Administering Authority to secure compliance and ensure the effective and efficient governance and administration of the LGPS.	Compliant	This is clearly set out in the Pension Board Terms of Reference Constitution. The Board also has a separate governance working document which contains great details on the roles and responsibilities of the Panel
Membership		
The terms should include the number of each category of Board member (including other representatives), the appointment and selection process, term of office and procedures for	Compliant	The Pension Board consists of 7 members and is constituted as follows: 3 Scheme employer representatives 3 scheme member

termination of office.		representatives Independent Chair selected by the Administering Authority each role. Vacancies are publicised. Officers from the Administering Authority assess each candidate's statement against the Person Specification and form a shortlist of suitable candidates. If there are more than 3 suitable candidates for each vacancy then a ballot will be held. Representatives serve for a fixed two year term which can be extended subject to re-nomination. Termination occurs automatically at the expiry of a term. Other than ceasing to be eligible a Board member may only be removed from office during a term by the unanimous agreement of all of the other Board members. The removal of the independent member requires the consent of the Scheme Manager.
Code of Conduct		
The terms should refer to the requirement for the Local Pension Board to have a code of conduct for its members and that members of the Board should abide by the code	Compliant	Board members are subject to the code of conduct for Board members.

Voting Rights		
The terms should set out that employer and member representatives of the Board have equal voting rights; indicate where the Chair is from either the employer or member representatives whether the Chair has a casting vote; and note that other member do not have voting rights on the Board	Compliant	The Board consists of 6 voting members, (3 employer and 3 scheme member representatives) and an independent Chair who is not entitled to vote. Other members do not have voting rights on the Board.
Conflicts of Interest		
The terms should refer to the requirement for the Board to always act within the terms of reference. The Local Pension Board should have a conflicts policy for its members and that members should abide by the policy and provide information that the Administering Authority may reasonably require from time to time to ensure that members do not have a conflict of interest.	Compliant	The term provides the purpose, scope and administrative procedures for the Board and requires the Board at all times to act in a reasonable manner in the conduct of its purpose and abide by the conflicts policy and code of conduct. All members of the Board must declare on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.
Appointment of a Chair / Vice Chair		
The terms should specify whether the Board is to have a chair and/or vice-chair and if so specify the roles, including administrative and leadership responsibilities, and how	Compliant	The terms cover the appointment of an independent chair and a vice chair and their responsibilities

they are appointed.		
Role of Advisers		
The terms should set out the role of professional advisers, or other advisors to the Board and the process for their appointment and agreeing their fees. In addition the process for the Board accessing existing advisors to the Administering Authority should also be set out.	Compliant	The Board may be supported through the appointment of advisers and can consult with such advisers to the Board and on such terms as it shall see fit within the budget for the Board that is met from the Fund. The Chair is required to notify the Administering Authority of any proposed use of the existing advisors to the Pensions Committee or of the intention to consult with other advisers.
Role of Officers		
The terms should set out the role of officers of the Administering Authority to the Board, for example in the provision of secretariat services to the Board or providing pension fund information to the Board.	Compliant	The role of officers is to provide support to the Board. This includes support finance, pension administration and secretarial support.
Administration of meetings including data protection		
The terms should include the notice period of Board meetings, the circulation of papers in advance of meetings, the decision making process, recording minutes of meetings, a procedure for dealing	Compliant	The Board meets as a minimum 4 times each year. The chair of the Board with the consent of the Board membership may call additional meetings. The agenda notice and supporting papers

with urgent items of business and the publication of information.		must be issued at least 5 clear working days in advance of a meeting except in the case of matters of urgency. Any urgent items of business must be agreed by the Chair and be of such matter that cannot wait until the next ordinary meeting. The Board seeks to reach consensus and decisions are put to a vote when it cannot be reached. Draft minutes of each meeting must be circulated to all Board members within 10 working days after the meeting. Draft minutes are then subject to formal agreement by the Board at their next meeting. The minutes may, with the agreement of the Board, be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.
Quorum		
The terms should specify a quorum for meetings and in particular whether the quorum should include	Compliant	A meeting is only quorate when at least one employer member representative, one employer

a minimum number of employer and member representatives.		representative and the Independent Chair are present. Substitute members are included within the quorum. A meeting that becomes inquorate may continue but any decisions will be non-binding.
Attendance Requirements		
The terms should specify the requirements for attending meetings and the consequences of continued failure to attend Board meetings.	Compliant	Representatives should endeavour to attend all meetings and are required to attend at least 2 out of 4 meetings each year. Board membership may be terminated prior to the end of the term of office due to a Board member no longer being able to demonstrate their capacity to attend and prepare for meetings or to participate in required training.
Role of Substitutes		
The terms should specify whether members are allowed to send substitutes to meetings where they are unable to attend themselves. Training requirements should also be considered where substitutes are permitted.	Compliant	Substitutes can be appointed by Member representatives. Where appointed, substitutes should be named and must undertake the same training as full members. Substitutes are allowed to attend on behalf of absent representatives if sufficient notice is given.
Creation of Working Groups / Sub-Committees		

The terms should specify whether the Board has the power to set up working groups or sub-committees	Compliant	The Board may establish sub-committees.
Allowances / Expenses		
The terms should specify the policy in relation to the payment of allowances and expenses to Board members.	Compliant	An annual allowance is paid to the Independent Chair, in line with the Administering Authority's policy on allowances. The Administering Authority does not pay allowances for Board members. Expenses are paid to Board members in line with the Administering Authority's policy on expenses.
Budget		
The terms should set out a process for the Board to have access to a budget for specified purposes.	Compliant	The Board is to be provided with adequate resources to fulfil its role set out in the terms. The budget is met from the Fund and determined by The Strategic Director – Resources.
Knowledge & Understanding		
The terms should refer to the requirement for the Board to have a policy and framework to meet the knowledge and understanding requirements of the 2004 Act.	Compliant	The Board has adopted the CIPFA Knowledge and Skills Framework and has an annual training plan for the Board. The Fund's Training Policy covers Board members.
Reporting		

The terms should include arrangements for the reporting of information to the Administering Authority including direct reporting arrangements where the Board has material concern. In addition the methods used to communicate to scheme members and employers should be included.	Compliant	The Board is required to report its requests, recommendations or concerns to the Pension Committee. The Board should report any concerns over a decision made by the Pension Committee to the Committee subject to the agreement of at least 50% of voting Board members provided that all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate. Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee and has not been rectified within a for a reasonable period of time it is under an obligation to escalate the breach. The appropriate internal route for escalation is to the Monitoring Officer and / or the Section 151 Officer. The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation. Board

		members are also subject to requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistleblowing policy]. Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report. Board agendas and minutes and training and attendance logs may be published using the following means: on the Fund’s website, as part of the Fund's own annual report; as part of the Governance Compliance Statement.

12. INVESTMENT STRATEGY STATEMENT

Introduction and background

This is the Investment Strategy Statement ("ISS") of the London Borough of Sutton Pension Fund ("the Fund"), which is administered by Sutton Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Mercer.. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 21 September 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons as it considers appropriate.

The Committee seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy.

The suitability of particular investments and types of investments

- The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.
- In order to meet this primary objective the Committee aims to:
- Maximise the returns from investments whilst keeping risk within acceptable levels
- Contribute towards achieving and maintaining a future funding level of 100%
- Enable employer contribution rates to be kept as stable as possible

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

- In addition, the Committee monitors its investment strategy on an ongoing basis, focusing on factors including, but not limited to:
- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund’s actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. Actual against target allocation for each of the main asset classes is recorded within the quarterly performance monitoring report.

Fund Investment Beliefs and Responsible Investment and Climate policy

The Investment beliefs of the Committee are set out in Appendix 1. The Committee has also developed an extensive set of beliefs and policies on responsible investment and climate risk which are set out in Appendix 2.

Investment in a Variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, debt instruments, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability.

The Fund’s target investment strategy is set out below as well as strategic ranges for each asset class as the Fund works towards the new target allocation over time. In line with the Regulations, the authority’s investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Fund allocation

	Strategic Target	Strategic Ranges
Global Equity	50.0	45.0-55.0
Diversified Growth	10.0	8.0-12.0
Private Equity	0.0	0
Total Growth	**60.0**	**50-70**
Property	10.0	8.0-12.0
Infrastructure	10.0	8.0-12.0
Multi-asset credit	9.0	7.0-11.0
Private Debt	5.0	3.5-6.5
Total Income	**34.0**	**28.0-40.0**
Corporate Bonds	0.0	0
Index Linked Gilts	6.0	4.5-7.5
Total Protection	**6.0**	**4.5-7.5**
Cash	0.0	0.0-2.0
Total Fund	**100.0**	**0**

As part of the 31 March 2019 actuarial valuation the Fund Actuary has assumed a discount rate and therefore required rate of return on the Fund assets of 4.7% p.a. This includes an allowance for prudence. The Committee believes that the current investment strategy will generate returns in excess of the required return while taking an appropriate degree of risk and tests the ability of the strategy to meet the Fund's objectives as part of the strategy review process.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The Committee carried out a strategic review following the completion of the 2019 actuarial valuation and reviewed the probability of achieving the Fund's objectives and the level of risk being taken within the strategy. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors including climate risks reduce the Fund's ability to generate long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows:

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assesses the Fund's currency risk during their risk analysis. Currently the Fund will invest in liquid assets on an unhedged basis, but will aim to invest in illiquid assets on a hedged basis where possible.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager, using a range of approaches for equity investment and having a proportion of the Scheme's assets managed on a passive basis. The Committee assesses the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Details of the Fund's approach to managing ESG risks is set out later in this document.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the London Collective Investment Vehicle (CIV) Pool. The structure and basis on which the London CIV Pool operates is regularly reported to the Government.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. They key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has already invested the following assets via the London CIV Pool:

Asset class	Sub Fund (Manager)	% of Fund assets	Benchmark and performance objective
Global equities	Newton	17.7	Benchmark: MSCI All Countries World Index Performance objective: At least 1.5% above benchmark over rolling 3 year period (net of fees)
Sustainable global equities	RBC	14.6	Benchmark: MSCI All Countries World Index Performance objective: At least 1.5% above benchmark over rolling 3 year period (net of fees)
Diversified Growth Funds	Baillie Gifford	6.2	Benchmark: 3 month LIBOR + 3% Performance objective: 3% above benchmark over rolling 3 year period (gross of fees)
Diversified Growth Funds	Pyrford	6.7	Benchmark: 3 month LIBOR + 3% Performance Objective: 3% above benchmark over rolling 3 year period (gross of fees)

The fund holds **12.9% or £110.3m** of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

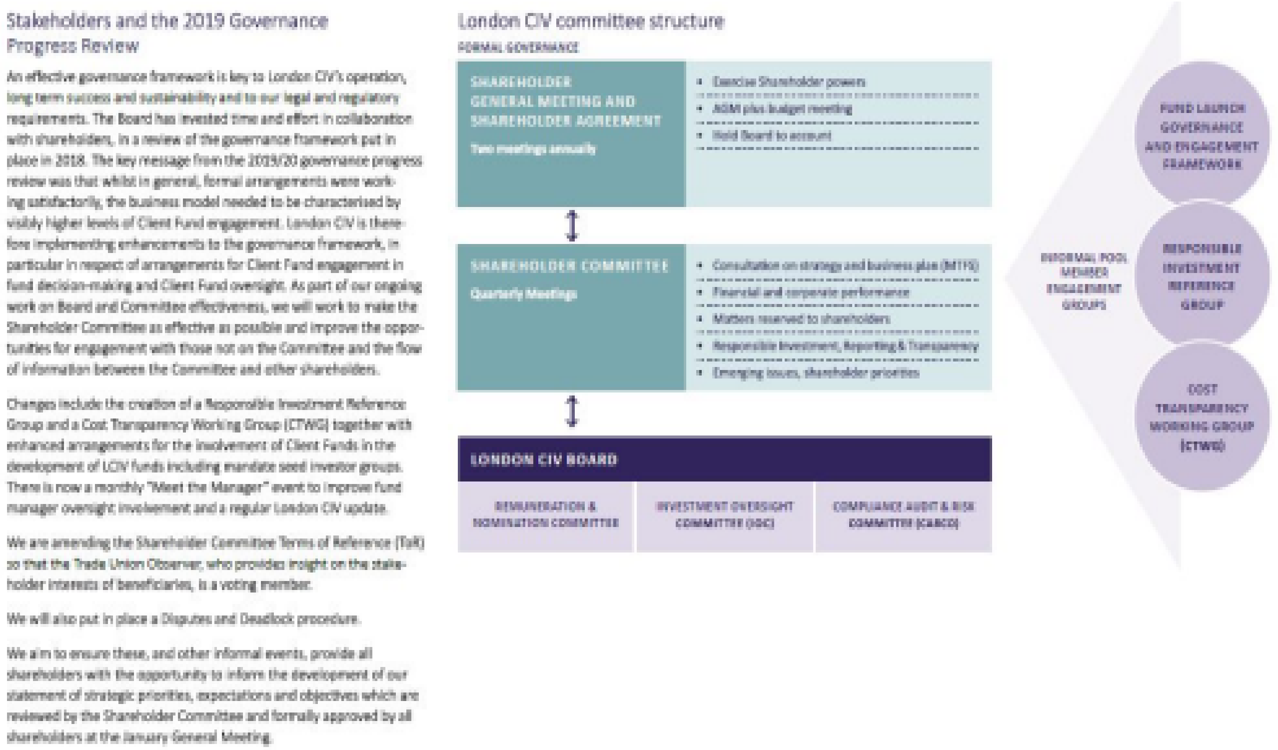
At the time when this statement was approved by Committee (September 2021), the Fund held the following mandates outside of the London CIV.

Asset class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the London CIV Pool
Global Equities	Harding Loevner	17.6	Benchmark: MSCI All Countries World NDR Index Performance objective: 3% above benchmark over rolling 3 year period (gross of fees)	No equivalent manager deemed available
Infrastructure	Partners Group	3.2		Already committed to investing with existing manager
Infrastructure – renewables	TBC			Engaging with LCIV investor group
Private debt	TBC			Engaging with LCIV investor group
Multi-asset credit	M&G (Alpha Opps Fund)	7.0	Benchmark: 3 Month LIBOR + 3% Performance objective: 3 Month LIBOR + 3 to 5 %	No equivalent LCIV manager available at present - to be kept under review

Bonds	M&G (Index Linked)	6.3	Benchmark: FTSE A British Government Over 5 Years Index-Linked Performance objective: 0.75% above benchmark over rolling 3 years period (gross of fees)	Being transitioned to passive alternative
Property	Blackrock	2.8	Benchmark: IPD UK All Pooled Property Funds Index Performance objective: To outperform the benchmark	No property managers on London CIV
Property	Aviva	1.4	Benchmark: IPD UK All Pooled Property Funds Index Performance objective: To outperform the benchmark	No property managers on London CIV
Property	Invesco	1.9	Performance objective: Unleveraged return of 8-9%	No property managers on London CIV

Structure and governance of the London CIV Pool

The current structure and governance framework of the London CIV is set out below:



Stakeholders and the 2019 Governance Progress Review

An effective governance framework is key to London CIV's operation, long term success and sustainability and to our legal and regulatory requirements. The Board has invested time and effort in collaboration with shareholders, in a review of the governance framework put in place in 2018. The key message from the 2019/20 governance progress review was that whilst in general, formal arrangements were working satisfactorily, the business model needed to be characterised by visibly higher levels of Client Fund engagement. London CIV is therefore implementing enhancements to the governance framework, in particular in respect of arrangements for Client Fund engagement in fund decision-making and Client Fund oversight. As part of our ongoing work on Board and Committee effectiveness, we will work to make the Shareholder Committee as effective as possible and improve the opportunities for engagement with those not on the Committee and the flow of information between the Committee and other shareholders.

Changes include the creation of a Responsible Investment Reference Group and a Cost Transparency Working Group (CTWG) together with enhanced arrangements for the involvement of Client Funds in the development of LCIV funds including mandate seed investor groups. There is now a monthly "Meet the Manager" event to improve fund manager oversight involvement and a regular London CIV update.

We are amending the Shareholder Committee Terms of Reference (ToR) so that the Trade Union Observer, who provides insight on the stakeholder interests of beneficiaries, is a voting member.

We will also put in place a Disputes and Deadlock procedure.

We aim to ensure these, and other informal events, provide all shareholders with the opportunity to inform the development of our statement of strategic priorities, expectations and objectives which are reviewed by the Shareholder Committee and formally approved by all shareholders at the January General Meeting.

Source: London CIV

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social responsibility, environmental risk and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and corporate responsibility in the underlying companies in which it invests. The Fund recognises that ultimately this protects the financial interests of the Fund and its beneficiaries. The Fund has a commitment to actively exercise the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which they invest, recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society. Further detail on the Fund's Voting policy is set out in Appendix 2.

Stewardship

The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the London CIV Pool and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis.

In addition to the Fund's compliance with the Stewardship Code, the Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues. Further detail on the Fund's Engagement and Stewardship policy is included in Appendix 2.

Appendix 1: Investment Beliefs

Statement of Investment Beliefs

This document sets out the investment beliefs of the Pensions Committee (the "Committee") of the London Borough of Sutton as administering authority to the London Borough of Sutton Pension Fund (the "Fund").

Belief: Clear and well defined objectives are essential to achieve future success
The Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due. The Committee have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

Belief: Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection
The Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.

Belief: Funding and investment strategy are linked
The Committee understands that a number of funding related aspects feed into investment strategy decisions, including maturity, sponsor covenant and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Committee.

Belief: The Committee will take an appropriate level of investment risk
As a long term LGPS Fund the Committee acknowledges the need to take investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

Belief: Long term investing provides opportunities for enhancing returns
The Committee believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long term returns

The Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

Belief: Diversification can provide more stable investment returns and help manage volatility The Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Committee believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, absolute return funds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Fees and costs matter

The Committee recognises that fees and costs reduce the Fund's investment returns. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. The Committee will consider paying higher fees in areas where there is real value and manager skill which can help the Fund achieve better or more consistent net of fees returns.

Belief: Funding level movements will be reflected in both the levels of cash contributions and investment risk

Should the funding level of the Fund improve or fall away from current levels the Committee will consider both the approach to funding and investment risk and will not solely look to minimise/maximise contributions or investment risk but find a balanced approach to investment and funding requirements that is aligned to the long term objectives of the Fund.

Beliefs: Market inefficiencies will provide opportunities to add value over time

The Committee believes that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Committee does not believe that they are best placed to capitalise on these opportunities. The Committee will therefore set mandates with the flexibility for managers to add value through allocation decisions where deemed appropriate. Alongside this the Committee will assess the position of the Fund against the long term strategic benchmark and any requirements to rebalance back toward the long term target.

Belief: Active management can add value but is not guaranteed

The Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Committee will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance will arise, the Committee seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

Belief: Responsible Investment is important to the Committee and can have a material impact on the long term performance of its investments

The Committee recognises that Responsible Investment issues incorporating all forms of ESG issues can impact the Fund’s returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund’s investment managers. The Committee commits to an ongoing review of its Responsible Investment policy to ensure it reflects latest industry developments and regulations and currently focuses on active engagement through working with managers and bodies such as the LAPFF.

Belief: There is a potential premium to be earned from illiquidity which the Fund can benefit from

The Committee believes that there are some more illiquid asset classes which the Fund can invest in where the Fund will benefit from the illiquid nature of the investments through attractive risk adjusted returns. The Committee will consider what is deemed an appropriate allocation to illiquid assets in the context of the changing net cashflow position of the Fund and will continue to monitor this over time.

Statement of Responsible Investment

The Committee acts as a responsible and active investor/owner through considered voting of share and ensuring that the Fund's managers engage with investee company management as part of the investment process.

The Committee considers the Fund's approach to responsible investment in two key areas:

1 Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments including climate risk.

2 Effective Stewardship – acting as responsible and active investors, through considered voting of shares, and engaging with investee company management as part of the investment process.

The following principles set out the Fund's approach:

- The Committee recognises that their duty is to act in the best financial interests of the Fund's beneficiaries. The Committee believes that environmental, social and corporate governance ("ESG") issues can have a material financial impact on the long-term performance of its investments and consideration of such factors is a part of their fiduciary duty.
- The Fund's investment managers including the London CIV are expected to take account of ESG factors as part of their investment analysis and decision-making process. Further, ESG issues will be an explicit factor in considering the appointment of any new investment manager, mandate and benchmark.
- The Fund's investment managers are expected to incorporate reporting on ESG factors into their regular reporting. This includes information on voting and engagement, in addition to details on how the investment managers are assessing and managing ESG factors in relation to their respective mandates. The Committee encourages their investment managers to develop their reporting and monitoring of ESG factors over time.
- The Committee also encourages engagement by their investment managers with investee companies on ESG factors to positively influence company behaviour and enhance the value of the holdings.
- The Committee believes that they will have greater influence on the future direction of companies if they remain invested. Overall engagement activities are viewed by the Committee as a key element of the broader approach to responsible investing. Remaining invested provides the Fund with a voice on how companies are generating their revenues and how they will change in the future. The

Committee view divestment as being the last resort.

- The Committee intends to make use of collaboration with other funds to pursue their engagement policy. To help with this, the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), one of the UK's leading collaborative shareholder engagement groups.
- The Committee is also seeking greater transparency of the ESG relative risks associated with their underlying investments.
- The Committee may consider portfolio 'tilts' in line with ESG or responsible investment objectives. However, these will only be applied where the Committee believes the tilt will protect or enhance financial value.
- The Committee wishes to take a proactive approach to Responsible Investment and Climate Change risk factors, which will be reflected in the implementation of the Fund's investment strategy.
- The Committee believes that companies that consider sustainability issues and engage proactively with the transition to a low carbon economy will be more successful in the longer run.

The Committee also has a number of ESG related beliefs which are integrated into the Fund's overall belief statement.

Voting Policy

The Committee and the Officers work closely with the Fund's investment managers to support good corporate behaviour. Having a voting policy enables the Committee to document their position and expectations for their fund managers and to hold our manager accountable for the decisions they make.

The managers are required to exercise their voting rights on behalf of the Fund when it is in the best interests of the Fund. Voting will be in accordance with the Managers' corporate governance policies. The Committee may engage with managers in order to discuss them voting according to the Committee's wishes on a particular resolution; however there may be limitations as to how this would work in practice given the use of pooled investments.

The Committee reviews their managers' voting guidelines on a regular basis to determine their appropriateness for the Fund.

All managers are expected to report their voting records on a quarterly basis. The Committee is committed to disclosing voting records to the Fund's membership on an annual basis through the Fund's website.

In making any future manager appointments, the Committee will assess the managers' voting policy as part of the due diligence process and will instruct the appointed manager accordingly. The Committee will also liaise closely with the London CIV on their voting policy and delegations to managers where relevant.

Engagement policy

The Committee recognises that successful engagement can protect and enhance the long-term value of the Fund's investments (this is not limited to equities). The following key principles underpin the Committee's engagement policy:

1 The Committee believes that engagement is a positive activity and encourages the Fund's investment managers to engage where they believe that value can be added or risk can be reduced.

2 The Committee believes that all engagements should have a well-defined objective. The Fund's investment managers are expected to report on the objectives of any engagement activity, along with the consequent success or failure of any actions taken on, at least, an annual basis.

3 The Committee will particularly support engagement activity that seeks to achieve:

- Greater disclosure of information on the ESG related risks that could affect the value of an investment;
- Transparency of an investments' carbon exposure and how such companies are preparing for the transition to a low carbon economy.

4 The Committee will publish a summary of engagement activity undertaken by their managers on an annual basis. The Committee will also publish other collaborative activity carried out over the year e.g. as part of the membership with LAPFF.

5 The Committee will encourage their investment managers to actively participate in collaborative engagements with other investors where this is deemed to be in the best interests of the fund.

6 The Committees' investment consultant is required to provide input and analysis to assist the Committee in assessing the Fund's investment managers' performance from an ESG engagement perspective.

7 The Committee liaises closely with the London CIV to ensure that they also adopt approaches consistent with the Fund's policy.

Climate change actions

The Committee is committed to considering the following actions in relation to climate change risk:

1. Undertaking analysis to understand the carbon risk exposure of its listed equity positions versus the global market, including

carbon emissions, carbon intensity, exposure to extractive industries and exposure to the energy transition

2. Regularly reviewing the carbon risk exposure of its investments, as part of its investment strategy process
3. Engaging with other investors and policy makers through industry initiatives on climate change
4. Investigating the merits of joining an institutional investor collective action group on climate change
5. Engaging with the Fund's managers and the London CIV on their approach to RI issues including climate change
6. Reviewing the engagement records of the Fund's managers on climate change and asking them to provide evidence of this engagement with the companies in which they invest
7. Challenging active managers on the investment rationale for their holdings in higher carbon risk companies and industries
8. Reviewing the benchmark for passive mandates to "tilt" the benchmark towards sustainable investments and lower carbon risk companies
9. Considering investment strategies which explicitly support sustainable investment and positive action on climate change, such as investment in renewable energy infrastructure

13. FUNDING STRATEGY STATEMENT

Introduction

This is the Funding Strategy Statement for the London Borough of Sutton Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes London Borough of Sutton's strategy, in its capacity as administering authority, for the funding of the London Borough of Sutton Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is London Borough of Sutton. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;

- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The results of the 2019 valuation are set out in the table below:

2019 valuation results	
Surplus (Deficit)	(£71m)
Funding level	90%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 19.2% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employers may vary to reflect an employer's specific circumstance. However, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example the council, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.7% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cash flows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how the McCloud/Sargeant judgements will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance included in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with any certainty, however, the Fund Actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here(https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes).

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 16 years but this will subject to contract length for admission bodies. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over a period agreed with the administering authority and the Fund actuary.

The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

As part of the 2019 valuation, the Fund commissioned an employer covenant review from Barnett Waddingham LLP based on an analysis of credit risk reports obtained from Dun & Bradstreet (D&B). Where the review highlighted any concerns with regard to the default risk of an employer, particular attention was given to the deficit recovery period adopted for the employer and whether any security for the Fund was in place.

A general summary of the approach used for employers in the Fund is set out in the table below, however, the approach adopted may differ to reflect the situation specific to the employer.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics, recognise particular historic liabilities or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Academies	Past and future service pooling	All academies in the pool pay the same total contribution rate and have the same funding level
CAB pool	Past and future service pooling	All employer in the pool pay the same total contribution rate and have the same funding level
Ill-health risk pooled employers	Ill-health risk only	Applies to all employers in the Fund apart from the major scheduled bodies

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

All academies will form part of the Academies pool apart from exceptional cases as agreed by the administering authority.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pension risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

Risk-sharing

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pension risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

New free schools will be allocated zero assets as they are not formed through conversion from a pre-existing school. Any liabilities that are transferred to the free school by individual members will have associated transfer of assets on an individual basis.

Contribution rate

The contribution rate payable when a new academy or free school joins the Fund will be in line with the contribution rate certified for the academies at the 2019 valuation.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be paid from the Fund to the employer as an exit credit, subject to the agreement between the relevant parties and any legal documentation. Further detail on the Fund's exit credit policy is outlined below.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches and adopt different assumptions, depending on the employer and the specific details surrounding the employer's cessation scenario.

Exit credit policy

Under advice from MHCLG, administering authorities should set out their exit credit policy in their Funding Strategy Statement. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.

- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.

- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund as certified in the Rates and Adjustments certificate only which will therefore exclude early retirement costs.

- As detailed above, the Fund Actuary may adopt differing approaches depending on the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 2%, and decrease/increase the required employer contribution by around 0.7% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

From 1 April 2020, the administering authority implemented an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When a tier 1 or tier 2 ill-health retirement occurs from active status, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain. This arrangement would exclude the major scheduled bodies.

The Fund reserves the right to preclude the use of the ill-health self-insurance reserve where there is evidence to suggest a higher than anticipated experience for an individual employer. The Fund also reserves the right to enforce Regulation 36(3) of the Regulations as appropriate.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. These results of the national Scheme valuation are used to test the cost control cap mechanism and

HMT believed that all public sector schemes should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

At the time of drafting the FSS we understand the next Fund valuation will be at 31 March 2022.

Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
    - Formally introducing into the Regulations the ability for the administering authority to allow an existing employer to spread the required exit payment over a fixed period.
    - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. MHCLG issued a partial response to this part of the consultation on 27 February 2020 and an amendment to the Regulations came into force on 20 March 2020, although having effect from 14 May 2018. The amendment requires funds to consider the exiting employer's exposure to risk in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations) and to have a policy for exit credits in their FSS which has been included earlier in this version.

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund there is, however, likely to be only a minimal impact on the level of maturity of the Fund and the cashflow profile.

This also brings a small increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and

- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, once in every valuation cycle as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the current triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

14. PENSIONS ADMINISTRATION STRATEGY

Introduction

The pensions administration strategy ("the strategy") sets out the responsibilities of the administering authority and scheme employers in administering the LGPS.

The role of administering authority for Sutton Council and Kingston Council is discharged by the shared pensions administration service and the shared finance service. Both of these services are hosted by Sutton Council. The shared HR service, hosted by Kingston Council, provides the pensioner payroll.

The strategy has been created pursuant to regulation 59 of the Local Government Pension Scheme Regulations 2013 and shall be reviewed at least every three years.

There are four sections of the strategy and those are:

- Roles and deadlines of all parties
- Administering authority's performance standards
- A statement about scheme communications
- Scope of additional costs that will be recovered from scheme employers

Roles and deadlines

Each of the parties to the LGPS has specific roles and responsibilities. It is important that this is clear to ensure we all discharge them fully.

If a stated deadline falls on a weekend or bank holiday then the deadline is the working day immediately prior.

Role	Deadline
Administering authority	
Shared Finance Service	
Appoint a fund actuary, investment advisors, custodians and fund managers	As required
Lead and publish the triennial valuation (as at 31st March 2016 and on 31st March in every third year afterwards) and annual summary valuation pursuant to regulation 62	Every three years and annually
Publish the audited fund annual accounts pursuant to regulation 56	Annually
Publish a pension fund annual report pursuant to regulation 57	Annually
Publish a funding strategy statement pursuant to regulation 58	At least every three years
Publish an investment strategy statement pursuant to regulation 7 of the Local Government Pension Scheme	At least every three years

(Management and Investment of Funds) Regulations 2016	
Publish a governance compliance statement pursuant to regulation 55	At least every three years
Produce the business strategy for the fund	Every three years
Support the Pensions Committee/Panel and the Pension Board	Quarterly
Maintain the fund risk register	Quarterly
Manage fund cash and bank accounts	As required
Monitor fund investments and performance reporting	At least quarterly
Complete the SF3 and other investment returns	Annually and as required
Complete the quarterly Office for National Statistics financial survey of pension schemes	Quarterly
Monitor the financial strength of scheme employers	Annually
Sign off admission agreement terms regarding the financial arrangements between the parties	As required

Shared Pensions Administration Service	
Publish annual benefit statements to all active and deferred members via Pensions Online	31st August
Publish pensions saving statements to scheme members that may have breached their annual allowance	6th October
Set up and amend admission agreements for admitted bodies	As soon as practicable
Manage the internal dispute resolution procedure	In accordance with the procedure
Apply the annual pensions increase as directed by HM Treasury	April pensioner payroll cut-off
Submit a quarterly tax return to HM Treasury and pay the required tax charges	14th day of the second month following the end of the relevant period
Maintain a membership database	Not applicable
Undertake an annual data review and complete The Pension Regulator scheme return notice	November, as directed by The Pension Regulator
Process tasks in accordance with the performance standards	See table below
Maintain a 'breaches of law' register and notify The Pension Regulator of any materially significant breaches, which may result from:	As soon as practicable

- A failure to issue annual benefit statements or pension savings statements in time - Errors and omissions identified by the internal dispute resolution procedure - Scheme employers failing to pay contributions on time or accurately - Other breaches of a legal requirement	
Provide information and manage the production of admission, cessation and IAS19/FRS102 (financial statement) reports via the fund actuary and share with those reports with scheme employers	As required
Calculate pensionable pay and determine a scheme member's final pay, when required	This is a scheme employer function by default, however, the shared pensions administration service will calculate this on behalf of scheme employers, unless a scheme employer wishes to do so themselves
Shared HR Service	
Pay pensioners their monthly LGPS benefits	29th day of the month for Kingston pensioners and the last Thursday of the month for Sutton pensioners.
Issue pension payslips in March, April and if the net monthly pension changes by £5 or more	Issued on the relevant pay date.

Scheme employers	
Submit the monthly contributions return in the required format	19th day of the month after which the deductions are made
Pay the monthly contributions to the fund pursuant to the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	Payment received by 19th day of the month after which the deductions are made
Submit an annual return in the required format	7th May
Calculate and pay redundancy and/or severance payments	As soon as practicable
Provide the data required for FRS17 (retirement benefits) calculations if requested	20 working days prior to the accounting date (ie 31st March, 31st July, 31st August etc).
Provide any additional data required for interim and/or cessation valuations	As soon as practicable
Publish a statement of policy about the exercise of discretionary functions pursuant to regulation 60	Within six months of becoming a scheme employer
Admit its employees into LGPS	By their starting date or auto enrollment date
Inform us about new scheme members, members leaving the scheme, or changes to employment (working hours, unpaid	20 working days after their starting date, leaving date or date of the change

leave, unauthorised absences, reductions in pay and 50/50 scheme elections) using the required form or template	
Give notice of a scheme member's intention to retire	20 working days prior to the intended retirement date
Make the first instance decision about an ill-health retirement following receipt of the independent registered medical practitioner's report	As soon as practicable
Respond to general queries from the administering authority	10 working days
Respond to errors or missing information identified by the administering authority	20 working days or sooner if required
Pay invoices for any recoverable additional costs	30 calendar days from the invoice date
Commence the deduction of additional contributions (APCs or AVCs) following an election from the scheme member or instruction from the administering authority	As soon as practicable
Scheme members	
Use Pensions Online to: • calculate a retirement quotation (over 55s only) • update your personal details • view your service, earnings and	Not applicable

contributions information • view your annual benefit statements	
Complete an expression of wish form for any potential death grant payment	Not applicable
Give notice to their scheme employer of an intention to retire	60 working days prior to the intended retirement date
When joining, complete a previous service form to notify the administering authority about any existing LGPS pension benefits	1 year from date of joining
Fund actuary	
Undertake the triennial valuation (including the recommended contribution schedules) and annual summary valuations	Every 3 years (next due 2022) and annually
Produce admission, cessation, conversion and IAS19/FRS102 (financial statement) reports	As required

Performance standards for processing tasks

The service target is the shared pensions administration service's target but in order to meet the overall process targets it will need to rely on other parties acting promptly. The targets have been set after accounting for any legal requirements and to achieve a suitable service level for scheme members.

Process	Service target	Overall process target	Legal deadline
Send a notification of joining to new scheme member	20 working days from receipt of all information	40 working days from date of joining	Two months from date of joining the scheme
Inform leaving scheme member of their deferred benefits or contribution refund	30 working days from receipt of all information	40 working days from date of leaving	No more than two months from date of initial notification
Provide transfer in quote to scheme member	15 working days from receipt of all information	40 working days from member's initial request	Two months from the date of request
Provide transfer value for transfer out or divorce proceedings	20 working days from receipt of all information	60 working days from date of request	Three months from date of request
Notify scheme member of their final retirement benefits	10 working days from receipt of all information	20 working days from date of retirement	One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age
Provide retirement quotation to scheme member	20 working days from receipt of	40 working days from date of	No more than two months from

	all information	request	date of request unless there has already been a request in the last 12 months
Notify dependants of their death benefits	10 working days from receipt of all information	40 working days from date of death	No more than two months from date of becoming aware of death
Answer general query correspondence	10 working days from receipt of correspondence	Not applicable	Not applicable

Communication statement

This statement confirms the procedures used for communication and information sharing between the various LGPS parties, including scheme members and their representatives, prospective members, and scheme members. It is required by regulation 61.

There are certain key principles that form the basis of approach to communication. They are:

- Digital first communication but alternative methods as required
- Self service when appropriate
- Using plain language to help parties to make informed decisions

Provision of information and publicity about the scheme

The policy will set out the channels of communication that will be communicated and their frequency. It will include an engagement plan that will include events for employers, members of the scheme and prospective members of the scheme.

We are committed to using technology to enhance services, improve accessibility and broaden inclusion. We are developing our use of digital communication through our secure member portal, Pensions Online, and email. Wherever possible, we will use a digital first means of communication, however, we recognise that individuals may have specific needs with regards to the format or language of our communication. As such, reasonable alternative material will always be made available on request.

Annual benefit statements are digitally published on Pensions Online and unless requested, a scheme member will not receive a paper copy. Using Pensions Online, active and deferred scheme members can view their statements, other documents and membership information.

We shall maintain the service's web pages on both Sutton Council's website and Kingston Council's website to provide information about the LGPS. The contents shall be reviewed at least twice per year. This is where we will publish the key scheme documents, such as the annual accounts. The web pages will not duplicate the core scheme information found on the LGPS website but rather link to it where possible and only add information that is specific to the respective fund.

When it is prudent to share scheme updates to scheme members, these messages will be added to the council websites. In addition, we will ask every scheme employer to cascade such messages to its active scheme members. If it is relevant to share the message with deferred or retired scheme members, we will circulate it using the principle of digital first, where possible. These updates may include changes to the scheme regulations.

During an actuarial valuation year, we shall hold meetings with scheme employers and the fund actuary to discuss the results and implications of the valuation and other actuarial matters.

The LGPS and other pension schemes can prove confusing to its members. As such, all communication sent by us will be written using plain language where possible and where not, will include suitable definitions. We will also utilise ‘drop-in’ sessions for scheme members after the publication of key annual documents like the annual benefit statements and pensions savings statements. This will give active members an opportunity to discuss their options in person, without offering them any financial advice.

Each fund’s governance arrangements include a committee/panel and a board, which receives reports from the administering authority. These reports are presented by officers and will include general updates and specific recommendations for decisions where the power to decide them has not been delegated to officers.

Forms and templates for scheme employers

Forms

Scheme employers need to submit information in accordance with specific requirements to support the efficient administration of the LGPS. The following forms must be used and can be found on the council websites:

- Notification of joining employee (LG2)
- Notification of leaving employee (LG3)
- Notification of an employment change (LG4)
- Notification of changes to multiple post employee (LG5)

Templates

In some situations, often due to a scheme employer's payroll provider, it is not always possible to use specific templates. As such, our templates are optional and scheme employers can choose to use their own format. However, the returns must still contain all of the fields found in our template. The following templates can be found on the council websites:

- Monthly contributions return (LG1)
- Annual return
- BDI return for bulk notification of joining employees

Sharing information with external bodies

From time to time the administering authority shall share scheme member and scheme employer information with the following external bodies:

- Cabinet Office
- Ministry of Housing, Communities & Local Government
- Department for Work & Pensions
- Government Actuary's Department
- HM Revenue & Customs
- Local Government Association
- The fund actuary (Barnett Waddingham LLP and Hymans Robertson LLP)
- The external auditor (Grant Thornton UK LLP)
- The member data service provider (Accurate Data Services)

Recoverable additional costs

The standard cost of administering the fund is factored into the contribution rates but there are circumstances that will require the recovery of additional costs.

Any such costs will be monitored by the administering authority and the relevant party will be invoiced for payment, either annually or on an ad-hoc basis depending on the type of cost.

Performance penalties

This type of recovery is dealt with according to regulation 70, which allows the administering authority to levy such charges on account of a scheme employer's unsatisfactory performance in carrying out its functions. These recoveries are required as a penalty to ensure the smooth running of the LGPS.

Any such recovery should be avoided where possible and scheme employers should seek advice from the administering authority if they experience any difficulties. The administering authority will not seek a recovery if there has been early engagement and suitable effort to comply. In the event that a recovery is required, the administering authority will provide the scheme employer with a written notice.

The penalties will be calculated as follows:

Unsatisfactory performance	Threshold	Charge
Late submission of joiner or leaver form	According to the roles and deadlines section	£50
High quantity of starters and leavers notified in annual return	More than 5% of scheme employer's active membership	£250 plus any other applicable charges
Late submission of annual return	According to the roles and deadlines section	£250 plus £50 per working day

Late submission of monthly contributions return	According to the roles and deadlines section	£125 plus £25 per working day
Poor quality of data in annual return or failure to provide information in the required format	More than 5% of data lines requiring amendment or deletion	Additional time spent to resolve at £125 per half day
Regulator fines as a result of scheme employer	Not applicable	The fine amount plus £100

Actuarial and other fees

Any requests for advice or work that is outside of the requirements of an administering authority as defined by the LGPS regulations will be recoverable from the relevant scheme employer or scheme member. This may include:

- Legal advice concerning admission or cessation
- Accounting valuation reports (FRS102, etc)
- Site visits or seminars

Such recoveries will recharge the cost incurred from the third party provider with no uplift or administration fee. If the work is to be undertaken by the administering authority itself, the fees will be agreed with the scheme employer or scheme member before work commences.

Interest on late payments

According to regulation 71, scheme employers are liable for interest on late payments including contributions and performance penalties. Interest will be charged according to this regulation on any overdue amounts. In addition, there will be a £100 charge for the administration of such action.

Divorce proceedings

Scheme members shall be liable for the administration costs of implementing a pension sharing order or other order related to divorce proceedings. The charge for this work is fixed at £500.

Strain costs

Pension strain costs or capital costs can occur in a number of situations. Depending on the situation, the scheme employer may be liable for the costs or the costs will be paid from the pension fund (the employer contribution rates include an element to cover these risks). The typical situations are as follows:

- Death - costs paid from pension fund
- Ill-health retirement - costs paid from pension fund
- Redundancy of an employee over the age of 55 - costs paid by scheme employer
- Retirement of an employee over the age of 55 on grounds of efficiency or where the scheme employer chooses to waive the actuarial reduction that would otherwise apply - costs paid by scheme employer

Essentially, if the scheme employer controls when the costs occur (i.e. it chooses to do something) then they are liable for the costs. If it is out of their control/fortuitous, the pension fund pays.