

London Borough of Sutton

Pension Fund Annual Report 2022/23



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1. INTRODUCTIONS



PENSION COMMITTEE CHAIR'S INTRODUCTION

I am pleased to present the Pension Fund Annual Report for 2022/23. This report brings together the Fund's financial statements with a review of financial and investment performance, the work of the shared pensions administration service, as well as the Fund's key policy documents.

Over the past year the Fund value decreased by 5.04%, or £43m to £811m. 2022 was an especially difficult year for returns from equity and bond markets, amid continued rapid tightening of monetary policy and inflation remaining significantly above Central Bank targets. This decrease was driven by a high allocation to equities and diversified growth funds. The final quarter of 2022/23 was more positive, with an improvement in performance on the quarter for the Fund.

The Fund's investments delivered a somewhat disappointing return on the year of -5.4%, with more positive 3 and 5 year period returns of 8.5% and 5.7% when compared against the benchmark performances of -1.8%, 9.1% and 6.6%. Average returns across all LGPS funds over the same intervals were -1.7%, 9.5% and 5.9% respectively.

During the year, a full triennial valuation was undertaken to assess the funding level of Sutton's Pension Fund at 31st March 2022. The valuation is a key part of the Fund's management and directly determines the contributions paid by employers, including the Council. It does not affect the nationally set benefits or contribution rates of individual members. The valuation showed an increase in funding level to 101% at the end of 2022/23 compared to 90% at 31st March 2019; the Fund was assessed as having slightly more assets than the estimated liabilities. A key driver of this improvement was stronger than expected investment returns during the period between the two full valuation dates.

A review of the investment strategy was undertaken alongside the valuation of the fund, to ensure the strategy remained fit for purpose. One key finding of the valuation was that the Fund is beginning to mature: with a smaller ratio of active

members (paying contributions) to retired members (in receipt of benefits) compared with the 2019 valuation. Given this and the improvement in funding level, it was decided to continue reducing the risk profile of the fund: reducing allocations to riskier growth assets and moving, especially, more towards alternative income generating assets. This will also help meet goals around climate change, pooling of LGPS funds in the London CIV and impact investing. Officers are implementing the changes agreed to the investment strategy to ensure its aims are met.

The shared pensions administration service provides the administration of the Local Government Pension Scheme (LGPS) for both Sutton Council and Kingston Council. Membership of the fund stands at approximately 17,500 across 60 employers. Following a review by Aon, the Fund's governance and benefits consultant, a number of recommendations regarding the Administration team were made. A new structure with additional posts has been implemented to increase capacity along with measures to increase efficiency. This was necessary due to the rise in the number of scheme employers and Fund members across both Funds in recent years, as well as the growing complexity of LGPS scheme. Key projects, such as the Guaranteed Minimum Pension Reconciliation Project and McCloud Remedy Project have also been advanced.

Several new policies and strategies have been approved and introduced in 2022/23: policies on cyber security and administering authority discretion in various situations, as well as a responsible investment policy, along with updates to the investment strategy statement (noted above) and the funding strategy statement.

The Fund is beginning to reap the benefits of a major investment strategy review, a new approach to the triennial valuation, a major focus on responsible investing and climate change, an in depth governance review and new accounting systems; this means it is fully equipped to deal with the coming changes that will affect the LGPS over the medium term. This is demonstrated by Sutton Pension Fund winning awards during 2022/2023: European Small Investment Fund of the Year at the IPE awards, an LAPF Investment Award for Diversity and Inclusion, as well as Organisation of the Year at the Institutional Investor awards (the latter shared with Kingston).

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 2022/23.

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 2022/23 includes:

- A detailed review of the administration performance and the recommendation of potential amendments to the reports to enable greater understanding and future challenge by Board and Committee members. In addition, the scrutiny of the performance reports led to officers querying the base data of the service and identifying issues that were impacting on the information provided.
- Recommending to officers to clarify the increasing challenges of administering the Fund due to the volume of extra legislative requirements and significantly expanded number of admitted bodies, which has culminated in a benefits processing improvement plan.
- Providing scrutiny of Fund investment performance and, more specifically, the asset allocation and compliance with the responsible investment strategy leading to clearer reporting and explanation of the transition arrangements.

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

Bradley Peyton, Head of Insurance and Pensions Administration

Lisa Doswell, Pensions Finance and Investment Manager

Kirsty Clubb, Senior Finance Lead - Pensions Investments

Scheme Administrators

Sutton and Kingston 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		Infrastructure
BlackRock	Multi Asset Credit	Partners Group
LaSalle	M&G	BlackRock, Stonepeak,
Invesco	CQS & PIMCO (LCIV)	Quinbrook, and Foresight (LCIV)
Private Debt		
Pemberton & Churchill		
Investment Adviser	Auditor	Banker
Mercer	Grant Thornton	Lloyds Bank
Performance Monitoring	Custodian	
Mercer	Northern Trust	
Legal Advisor	AVC Provider	
South London Legal Partnership	Clerical Medical and Utmost	

3. FINANCIAL PERFORMANCE

Fund Income and Expenditure From 2018/19 to 2022/23

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

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Contributions receivable	47,373	39,099	44,080	36,896	37,202
Benefits payable	(66,527)	(32,925)	(33,243)	(50,632)	(35,198)
Net payment (to)/from the Fund	(19,154)	6,174	10,837	(13,736)	2,004
Fund management expenses	(6,308)	(6,015)	(6,510)	(6,571)	(7,705)
Net returns on investment	7,606	9,354	11,785	9,344	15,383
Change in market value	40,070	(33,264)	156,201	53,419	53,823
Net (decrease)/increase in the Fund	22,214	(23,751)	172,313	42,456	63,505

The above table shows a net increase in the Fund's value of £277m over the past 5 years. This is largely attributed to the change in market value of £270m 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

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Contributions Receivable					
- Members	6,072	6,555	7,006	7,562	8,185
- Employers	25,251	25,979	33,760	25,669	25,156
- Transfers in	16,050	6,565	3,314	3,665	3,861
Total Contributions	47,373	39,099	44,080	36,896	37,202
Benefits Payable					
- Pensions	(22,023)	(22,926)	(23,659)	(26,221)	(27,680)
- Lump sum retirements and death benefits	(5,170)	(4,587)	(3,910)	(3,972)	(4,455)
- Transfers out	(39,210)	(5,258)	(5,584)	(20,281)	(2,973)
- Refunds	(124)	(154)	(90)	(158)	(90)
Total Benefits Payable	(66,527)	(32,925)	(33,243)	(50,632)	(35,198)
Net Payment to / (from) the Fund	(19,154)	6,174	10,837	(13,736)	2,004

As shown in the table above, the value of transfers in for 2022/23 was £3,861k (2021/22: £3,665k) 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 2022/23 was £2,973k (2021/22: £20,281k). 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.

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Administration Cost					
Internal support costs	395	524	719	921	1,063
Other	113	291	103	117	311
Sub-total Administration Costs	507	815	822	1,038	1,374
Investment Management Expenses					
Management fees (including performance fees)	4,446	3,423	4,049	4,301	4,706
Transaction costs	1,118	1,421	1,401	837	1,318
Custodian	97	37	38	106	100

Sub-total Investment Management Expenses	5,661	4,881	5,488	5,244	6,124
Oversight and Governance Costs					
Actuarial fees	54	113	46	17	37
External audit	16	16	34	35	35
Investment advice	30	84	83	52	4
Other	39	106	37	185	242
Sub-total Oversight & Governance Costs	139	320	200	289	318
Total Fund Management Expenses	6,307	6,016	6,510	6,571	7,816

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 May 2017, the Local Government Pension Scheme Advisory Board 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. From 2021/22 there has been 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.

Overall, in 2022/23 the cost of managing the Fund represents approximately 0.9% (2021/22: 0.8%) of the value of the Fund. The absolute cost of managing the fund increased minimally during the year by £1,245k.

	2018/19	2019/20	2020/21	2021/22	2022/23
Membership Number	14,088	14,761	15,094	16,769	17,494
Cost per member					
Administration costs	36	55	54	62	79
Investment Management costs	402	331	364	313	350
Oversight and Governance costs	10	22	13	17	18
Total Fund costs per member	447	408	432	392	447

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

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Current Assets	4,545	7,998	6,755	15,216	21,097
Current Liabilities	(13,772)	(560)	(2,129)	(18,034)	(18,125)
Net Current Assets	(9,227)	7,438	4,626	(2,818)	2,972

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 2023 of £18,125k included £14,560k for the bulk transfer of Croydon Council for the South London Waste Partnership.

4. INVESTMENT POLICY AND PERFORMANCE REPORTING

Investment Background 2022-23

Macro

The second quarter of 2022 saw a continuation of the broad macro trends seen since the beginning of 2022. Surging commodity prices, to some degree the result of the ongoing conflict in Ukraine and associated sanctions against Russia, alongside the enormous monetary and fiscal stimulus of the last two years led to new multi-decade inflation records. Central banks in major regions doubled down on monetary tightening as a consequence, resulting in elevated market volatility and a sell-off in pretty much all asset classes except commodities. Growth expectations were dialed down over the quarter, with a growing number of investors seeing a recession as an increasingly plausible scenario. On the brighter side, there was evidence of supply chains gradually beginning to improve.

Inflation and central bank policy continued to drive markets in the third quarter of 2022. Inflation readings in most major regions remained high and rising. Central banks therefore continued to tighten monetary policy and maintained a hawkish outlook, resulting in elevated market volatility. Risk assets rose in July on the back of hopes of inflation peaking and the hiking cycle ending, but these hopes were quashed later in the quarter. Furthermore, markets priced in the increasing risk of a recession resulting from the monetary tightening. Therefore most major asset classes ended the quarter with negative returns. Significant continued weakening in sterling mitigated the drawdown for unhedged UK investors. The conflict in Ukraine added to negative sentiment as Russia stepped up its anti-west rhetoric and further restricted natural gas supplies to Europe which exacerbated pressure on energy prices. Volatility spiked in UK markets at the end of Q3 2022 as an unfunded fiscal budget led to a sell-off in government bond markets.

In Q4, developed market central banks continued tightening monetary policy but at a slowing pace. Inflation remained on a downward trend from high levels. In China, an end to all Covid-related restrictions boosted sentiment as investors priced in an economic rebound. The narrative of peaking inflation and resilient economic growth drove positive equity returns during October and November, but hawkish messaging from central banks in December led to a premature end of the “Santa rally” even though the quarter as a whole ended with positive equity returns for the first time in a year.

The first quarter of 2023 started with optimism over declining inflation and a hope of an end to monetary tightening. The demise of Silicon Valley Bank (SVB), the second largest US bank failure in history, and UBS's shotgun takeover of Credit Suisse in March were the major events of the quarter that briefly rattled markets until calm returned towards quarter end. Developed market central banks continued raising rates through the quarter as overall growth momentum remained robust. Headline inflation continued to slow in major developed economies, except for the UK, but core inflation remained more elevated than expected.

Overall, the 12-month period to March 2023 saw tightening of financial conditions by major central banks, with the notable exception of China and to some extent Japan, who changed their yield curve control in Q4 2022 by widening the permitted range of the 10-year yield. Inflation remained elevated and peaked in 2022Q4.

Equities

On a year-on-year basis to 31 March 2023, Sterling returns for developed market equities were marginally negative, -0.7%. Sterling depreciation mitigated negative equity performance for unhedged UK investors. Emerging market equities also posted negative returns. Markets sold off for the first three quarters of 2022 as inflationary pressures, exacerbated by Russia's invasion of Ukraine, accelerated monetary tightening from developed market central banks and heightened recessionary risks. Markets attempted to stage a mini-rally in July 2022 but this proved short lived as the Federal Reserve re-iterated its hawkish outlook for monetary policy. A similar rally took place in October and November following some softer than expected US inflation data but positive momentum came once again to an end in December after major central banks retained their hawkish forward guidance. Q1 was a volatile quarter once again as a speculative rally in January characterized by short selling gave way to a risk off environment driven by distress in the banking system with investor expectations pivoting between monetary tightening ending and having to continue for longer. The quarter ended with positive returns for most equity sub sectors, in particular technology which benefited from falling real yields.

Bonds

On a year-on-year basis to 31 March 2023, UK government bond returns were deeply negative, -16.3%, as were returns for UK corporate bonds, -10.3%. Inflation-linked bonds also performed poorly over the year, -26.7%.

In 2022, inflation pressures in the UK showed little signs of receding until very late in the year. The Bank of England had started its hiking cycle as early as late 2021. By the end of Q2 2022 the UK base rate reached 1.25%. In September 2022, the UK went through a major government bond (gilt) sell-off after the government announced a mini budget that markets deemed fiscally unsound. In the immediate aftermath following the mini-budget, 10-year yields spiked ~70 bps higher. Two

weeks following the announcement despite volatility falling, 10-year yields remained 40 bps higher than where they were prior to the announcement, this said over this period gilts did not perform considerably different to other government bonds globally. For context, over the 12-month period to March 2023, 10-year UK gilts yields rose 188bps. Markets positioned for the Bank of England having to double down on tightening in order to offset the expansionary mini budget. Soaring yields led to a scramble for collateral by UK pension plans who were exposed to leveraged liability hedging strategies. This ultimately led to the Bank of England providing liquidity support at the longer end of the yield curve. However, the Bank of England also continued to raise rates in the third and fourth quarter of 2022, ending the year at a base rate of 3.5%. Bond yields fell slightly through Q1 2023 despite the BOE continued raising rates, with the base rate increasing 0.75%, finishing March 2023 at 4.25%.

UK real yields rose over the 12 months to March 2023, with most of the increase in yields occurring in Q3 2022, in particular September. 10-year real yields rose 247bps over the 1-year period to 31 March 2023. Market-based measures of inflation, as measured by the 10-year break-even inflation rate fell by 57bps over the 12-month period reaching 3.7% as at the end of March 2023 – lower than the recent peak of 4.5% reached in May 2022. For context, the 5-year high for 10-year UK breakeven inflation was in March 2022 when market-based measures of inflation expectations were 4.64%.

Both investment grade and high yield credit spreads widened over the 12-month period to March 2023, leading to a negative performance for spread based assets, albeit most of the negative impact was led by rising gilt yields. The negative return impact of rising government bond yields was exacerbated by rising credit spreads. Non-gilt credit spreads widened by 39 basis points over the 12-months to March 2023. Credit marginally underperformed equivalent duration government bonds. However, given most bond indices were down in double digit figures over the 12-month period to March 2023 this relative underperformance was not a headline.

Property

The UK property market is going through a period of correction driven by the unprecedented rises in interest rates which are yet to come to an end. While higher interest rates are negatively affecting the yield side of the returns equation, strong inflation is having a broadly positive impact on rental growth as part of returns. The UK, due to its tradition of monthly valuations and deep investor base, tends to be the fastest correcting property market in the world, which means that during downturns pricing opacity and low market transparency are deemed to be less problematic than elsewhere.

After reaching a low point of gross asset-level returns at -14.5% for the 3-months to December, the MSCI UK Monthly Property Index shows the negative return trend improving over the first quarter, with the 3-months to February 2023

recording a negative total return of -3.7%. All property types continued to record negative but moderating returns. In the 3-months to February 2023 capital growth ranged between -1.4% in residential to -6.4% in industrial.

Investment Markets

Equity Markets

At a global level, developed markets as measured by the FTSE World index, returned -0.7%. Meanwhile, a return of -3.9% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 8.7% 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 2.9%. The FTSE USA index returned -2.4% while the FTSE Japan index returned 2.0%. The considerable outperformance of UK equities is attributed 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 2023.

Bonds

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -16.3%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -29.7% over the year. Yields at the longer end of the nominal yield curve rose less than the shorter end but this was offset by the duration impact on the longer-dated gilt returns. The yield for the FTSE Gilts All Stocks index rose over the year from 1.7% to 3.7% while the Over 15 Year index yield rose from 1.7% to 3.8%.

The FTSE All Stocks Index-Linked Gilts index returned -26.7% with the corresponding over 15-year index exhibiting a return of -39.1%. The combination of falling inflation expectations and increasing nominal yields led to a sharp rise in real yields and underperformance of index-linked gilts relative to nominal gilts.

Property

Over 12-month period to 30 September 2022, the MSCI UK All Property Index returned -14.5% in Sterling terms.

Commodities

The price of Brent Crude Oil fell 25.8% from \$107.46 to \$79.76 per barrel over the one-year period. Over the same period, the price of Gold rose 1.8% from \$1941.15 per troy ounce to \$1976.50.

The S&P GSCI Commodity Spot Index returned -15.6% over the one-year period to 31 March 2023 in Sterling terms.

Currencies

Over the 12-month period to 31 March 2023, Sterling depreciated by 6.1% against the US Dollar from \$1.32 to \$1.24. Sterling appreciated by 3.0% against the Yen from ¥159.81 to ¥164.56. Sterling depreciated against the Euro by 6.1% from €1.32 to €1.24 over the same period.

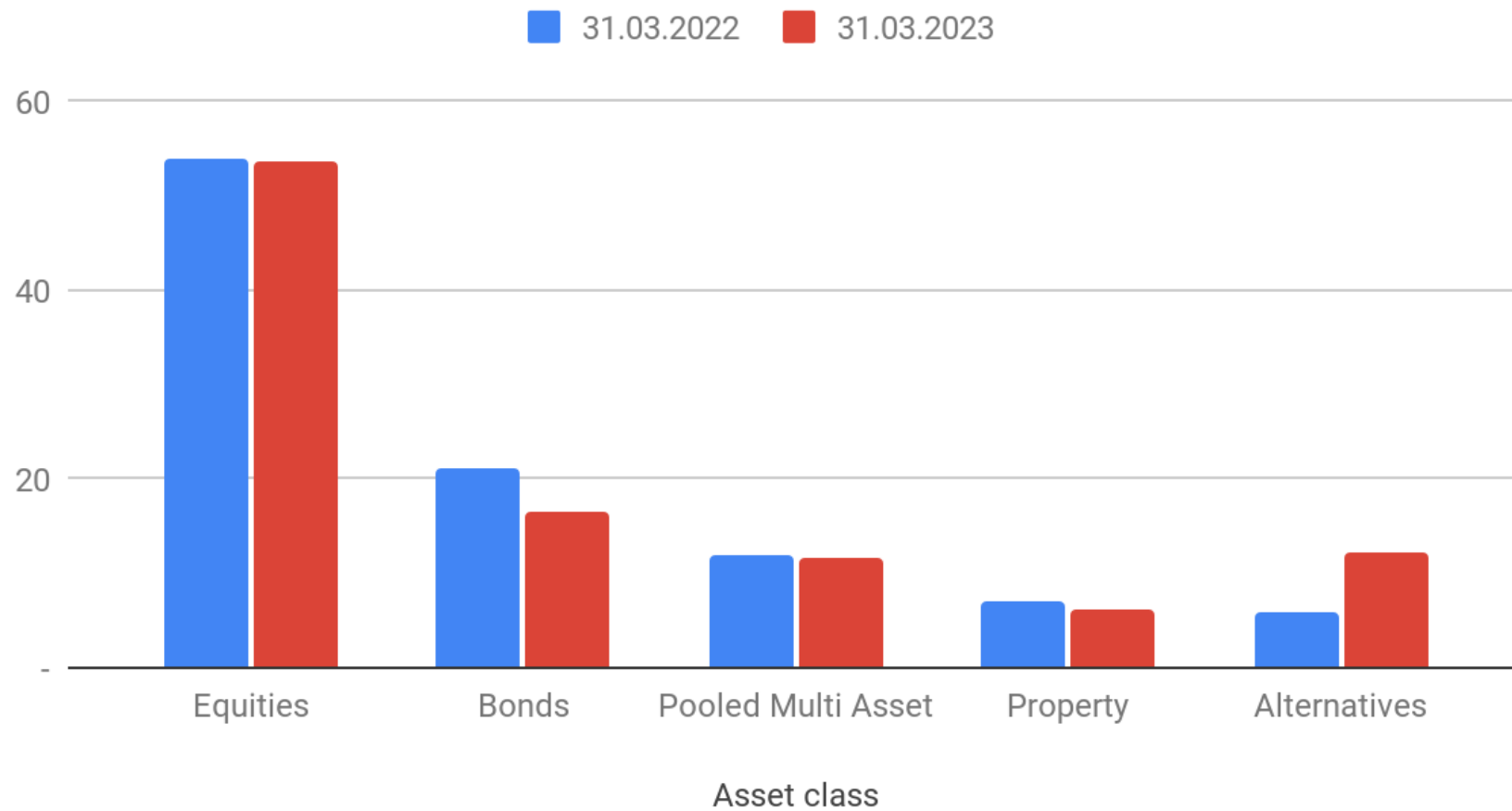
Asset Allocation and Manager Breakdown

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 its 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
	31.03.2022	31.03.2023		31.03.2023
Equities	54	54	50	4
Bonds	21	17	15	2
Pooled Multi Asset	12	12	10	2
Property	7	6	10	(4)
Alternatives	6	12	15	(3)
	100	100	100	



Asset Allocation 31 March



During the year ended 31 March 2023, equity managers Legal & General, Harding Loevner, 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 and the LCIV, 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 2022 and 31 March 2023 is shown below.

Fund Manager	% at 31/03/23	Value at 31/03/22 £'000	Value at 31/03/23 £'000
Investments managed by London Collective Investment Vehicle	48.0	372,100	387,913
Pyrford - LCIV Global Total Return Fund		47,948	48,159
Baillie Gifford - LCIV Diversified Growth Fund		51,889	47,502
Newton - LCIV Global Equity Fund		103,823	104,074
RBC - LCIV Sustainable Equity Fund		121,626	112,319
CQS & PIMCO - LCIV Multi Asset Credit Fund		29,720	28,406
Pemberton & Churchill - LCIV Private Debt Fund		17,094	27,533
BlackRock, Stonepeak, Quinbrook, and Foresight - LCIV Renewable Infrastructure			19,920
Investments managed outside of London Collective Investment Vehicle	52.0	485,021	419,434
Harding Loevner Funds Plc Global Equity Fund		166,187	151,894
Legal & General Future World Global Equity Index Fund		74,422	73,675
Legal & General Over 5 Year Index Linked Gilts Fund		93,404	50,531
M&G Alpha Opportunities Fund		56,974	57,734
LaSalle Investors UK Real Estate Fund of Funds		13,596	11,417
BlackRock UK Property Fund		26,376	21,637

Invesco Real Estate UK Residential Fund SCSp	16,398	16,658
Partners Group Direct & Global 2015 S.C.A., SICAV-SIF & Global 2012 S.C.A., SICAR	37,664	35,888
Total	857,121	807,347

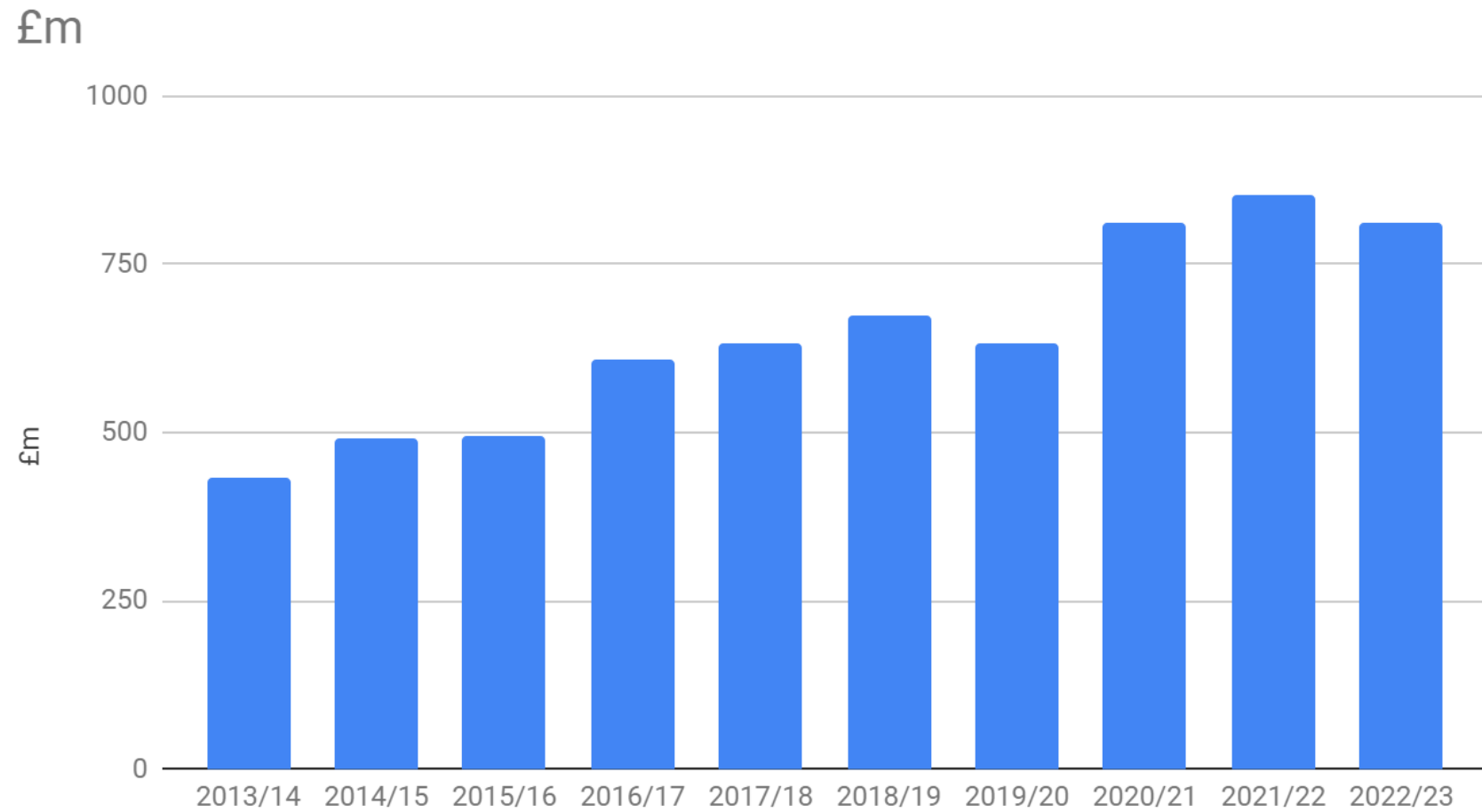
Each fund manager has been set a specific benchmark, as well as a performance target against which they will be measured. This is shown in the table below.

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 III Direct	-	+8% to +12% p.a. (net of fees)
Churchill and Pemberton	-	+6% to +8% p.a. (net of fees)
BlackRock, Stonepeak, Quinbrook, and Foresight	-	+7% to +10% 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.

Performance

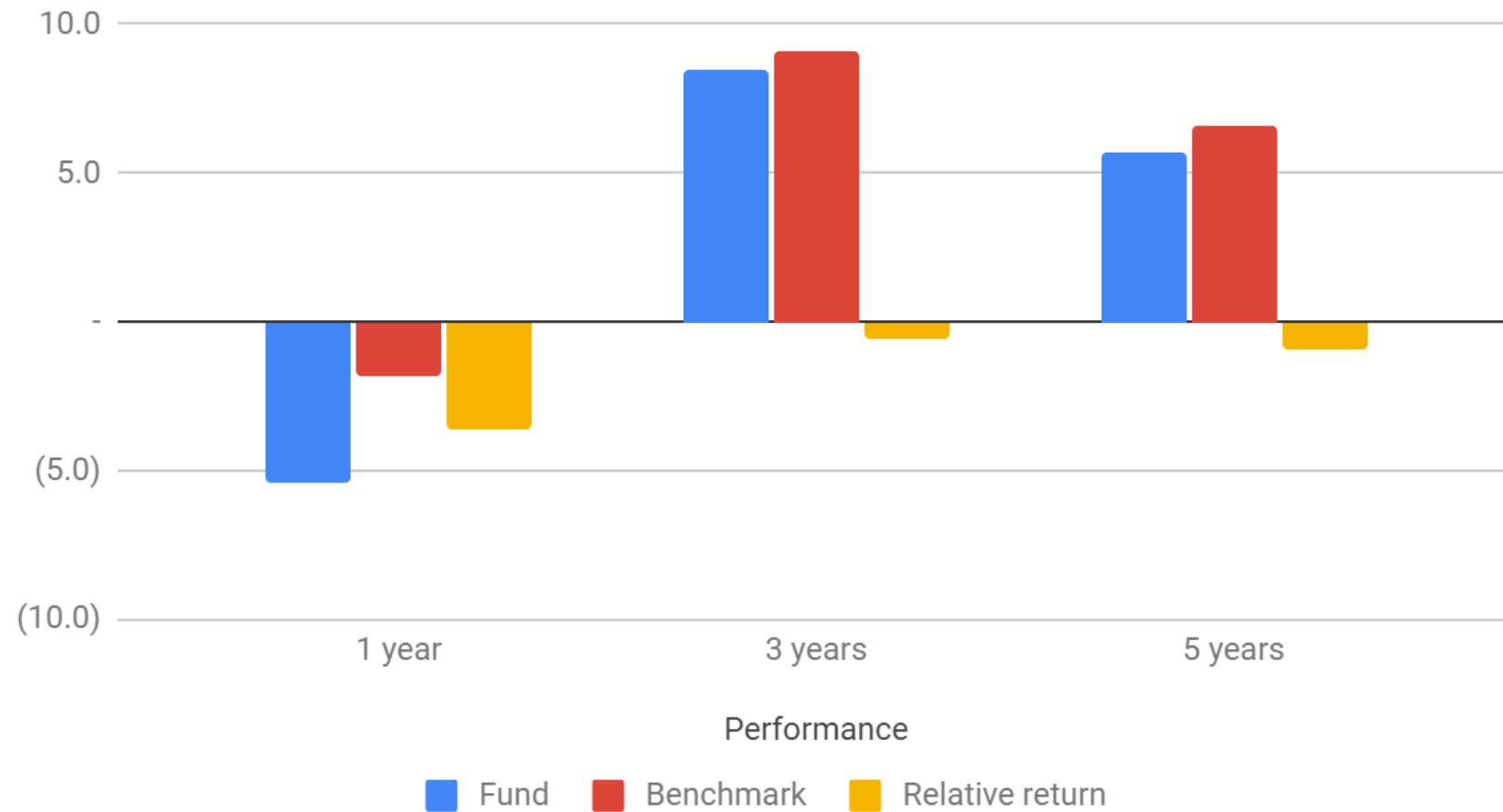
The following three tables provide comparative analyses of performance over 1 year, 3 years and 5 years at total Fund level and at fund manager level against the relevant benchmark. All figures are shown net of fees.

Performance	1 year	3 years	5 years
Fund	(5.4)	8.5	5.7
Benchmark	(1.8)	9.1	6.6
Relative return	(3.6)	(0.6)	(0.9)

At total fund level, as at March 2023 the Fund underperformed the benchmark by 3.6% over the past year, underperformed by 0.6% per annum over three years and underperformed by 0.9% per annum over five years.



Investment Performance over 1, 3 and 5 years



Manager	1 year performance			3 year performance			5 year performance		
	Fund Return	Bench mark Return	Relative return	Fund Return	Bench mark Return	Relative return	Fund Return	Bench mark Return	Relative return
London Collective Investment Vehicle:									
Newton - Global Equity	0.3	(0.9)	1.2	15.1	16.0	(0.9)	11.1	10.2	0.9
RBC - Sustainable Equity	(7.7)	(1.0)	(6.7)	-	-	-	-	-	-
Baillie Gifford - Diversified Growth Fund	(8.4)	5.8	(14.2)	3.8	4.4	(0.6)	0.4	4.3	(3.9)
Pyrford - Diversified Growth Fund	1.5	18.5	(17.0)	4.8	12.9	(8.1)	3.1	10.9	(7.8)
CQS - Multi Asset Credit Fund	4.3	5.7	(1.4)	-	-	-	-	-	-
Pemberton & Churchill - Private Debt Fund	11.1	-	11.1	-	-	-	-	-	-
BlackRock, Stonepeak, Quinbrook, & Foresight - Renewable Infrastructure	28.2	-	28.2	-	-	-	-	-	-
Other Managers:									
Harding Loevner - Global Equity	(8.6)	(1.4)	(7.2)	11.0	15.5	(4.5)	8.0	9.7	(1.7)
Legal & General - Index Linked	(30.4)	(30.4)	-	(9.2)	(9.2)	-	-	-	-
Legal & General - Global Equity	(1.1)	(1.2)	0.1	-	-	-	-	-	-
M&G - Multi Asset Credit	2.2	5.3	(3.1)	6.6	3.8	2.8	3.3	3.3	-
LaSalle - Property	(13.6)	(13.3)	(0.3)	0.2	1.7	(1.5)	0.3	2.1	(1.8)
BlackRock - Property	(15.7)	(14.4)	(1.3)	2.1	1.4	0.7	2.0	1.4	0.6
Invesco - Property	1.5	8.0	(6.5)	3.5	8.0	(4.5)	2.6	8.0	(5.4)

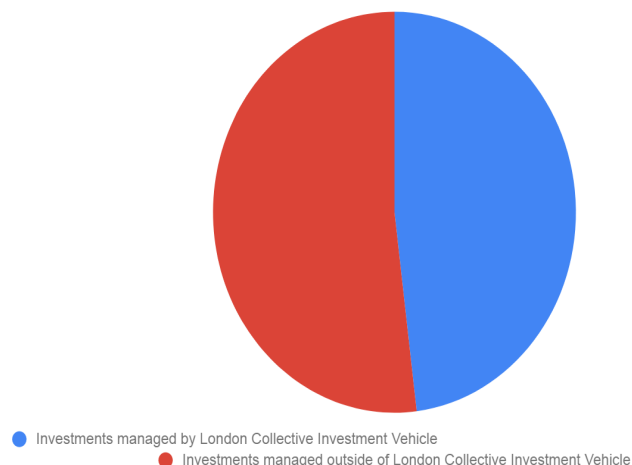
Partners Group Global 2012 - Infrastructure	20.3	-	-	14.7	-	-	10.4	-	-
Partners Group Direct 2015 - Infrastructure	22.6	-	-	23.3	-	-	16.8	-	-
Partners Group Global 2015 - Infrastructure	15.7	-	-	20.2	-	-	15.3	-	-
Partners Group Direct III - Infrastructure	18.0	-	-	-	-	-	-	-	-

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.

LB Sutton Investments in London CIV and External Managers



At the end of 2022/23, the London Borough of Sutton Pension Fund had 48% of its assets managed by LCIV with a further 15% 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 £876k after LCIV expenses. LCIV has been operating for 9 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 22 funds with £14.3bn of assets under management (excluding the life funds).

	2018/19	2019/20	2020/21	2021/22	2022/23	Cumulative
	£'000	£'000	£'000	£'000	£'000	£'000
Set up Costs						
Share purchase	-	-	-	-	-	-
Annual subscription	25	25	25	25	25	125
Development funding charge	65	65	85	85	85	385
Other	4	4	4		-	12
Transition Costs						-
Fee Savings	(253)	(129)	(136)	(441)	(439)	(1,398)
Net Savings Realised	(159)	(35)	(22)	(331)	(329)	(876)

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	2,337	2,366	4,703
Transaction costs	914	404	1,318
Custody fees	47	53	100
Performance fees	3	-	3
Total	3,301	2,823	6,124

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 Pension Fund and the Kingston 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
- Ensure that any internal dispute resolution procedure 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 alongside its annual tasks (such as publishing annual benefit statements, applying pension increase, etc):

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.

At a fund level, administering authorities are in the process of: identifying those in scope of the proposed extended underpin; obtaining the data needed to calculate final salary benefits from employers; updating scheme member records; calculating retrospective benefits; communicating with members and employers; paying any underpayments identified; and making changes to systems and administrative processes to carry out ongoing administration under the new regime.

During the financial year 2022 to 2023, the fund has made good progress on the data collection element of the project and has started the process of validating the employer returns prior to loading them onto its membership database. The project is on-track and suitable governance resources have been assigned to manage it.

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 were identified, members may have been 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, which analysed and investigated the scheme records to reconcile the fund's GMP amounts with HMRC.

The final phase was on hold whilst the fund's software provider developed its system to deal with the rectifications processes required. The project restarted during the financial year 2022 to 2023 and the fund began the processes necessary to rectify the required benefits. This project is expected to be completed by the Winter of 2023.

Pensions Dashboards project

The government's Pensions Dashboards 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 - was September 2024, however, this may be pushed back following the government's decision to replace staging deadlines with a single connection deadline of October 2026.

The fund's software provider has a working party for their local government clients to scope the requirements. The fund has implemented a data improvement policy and plan to prepare for this project and to achieve wider improvements.

Independent structure and efficiency review

The fund's benefits consultant completed a structure and efficiency review of the service in early 2022. Their review noted that the existing team is knowledgeable and dedicated but the structure was lacking resource in some key areas. The number of scheme employers and scheme members in the shared service had risen by 500 and 50 per cent respectively over a 10 year period. In addition, the LGPS has rapidly evolved and has become more complex to administer.

The review made 36 recommendations, which were considered and implemented by the fund during the financial year 2022 to 2023. Alongside various efficiency actions, the fund also undertook a reorganisation process to implement the structural actions. The new structure went into effect in late October 2022 and included six new positions to be filled.

This work demonstrates the fund's ambitions to provide a quality service to its scheme members and other stakeholders. With dedicated employer liaison and governance roles in place, the fund is best positioned to adapt to the changing LGPS landscape.

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, as demonstrated by the independent review it commissioned and the resulting reorganisation.

At the end of the financial year 2022 to 2023 there was a benefits procession, data and systems and employer liaison and governance structure with 25.2 FTE positions serving the two funds in the shared service (12.6 FTE per fund). This total includes vacant positions the shared service is attempting to fill.

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 the fund has a data improvement policy and plan in place. Common and scheme-specific data scores are calculated and submitted to The Pensions Regulator annually. The 2022 scores were 93% and 56% respectively. In accordance with the data improvement policy, the fund engages a data services provider to undertake monthly mortality screening and lost contact address tracing. The data improvement plan includes actions to identify bulk data solutions to resolve certain validation issues.

Data analysis

Membership data

Active	Deferred (inc. frozen refunds)	Pensioner	Undecided leaver	Total
6,039	6,819	4,636	Contained in active	17,494

New pensioners

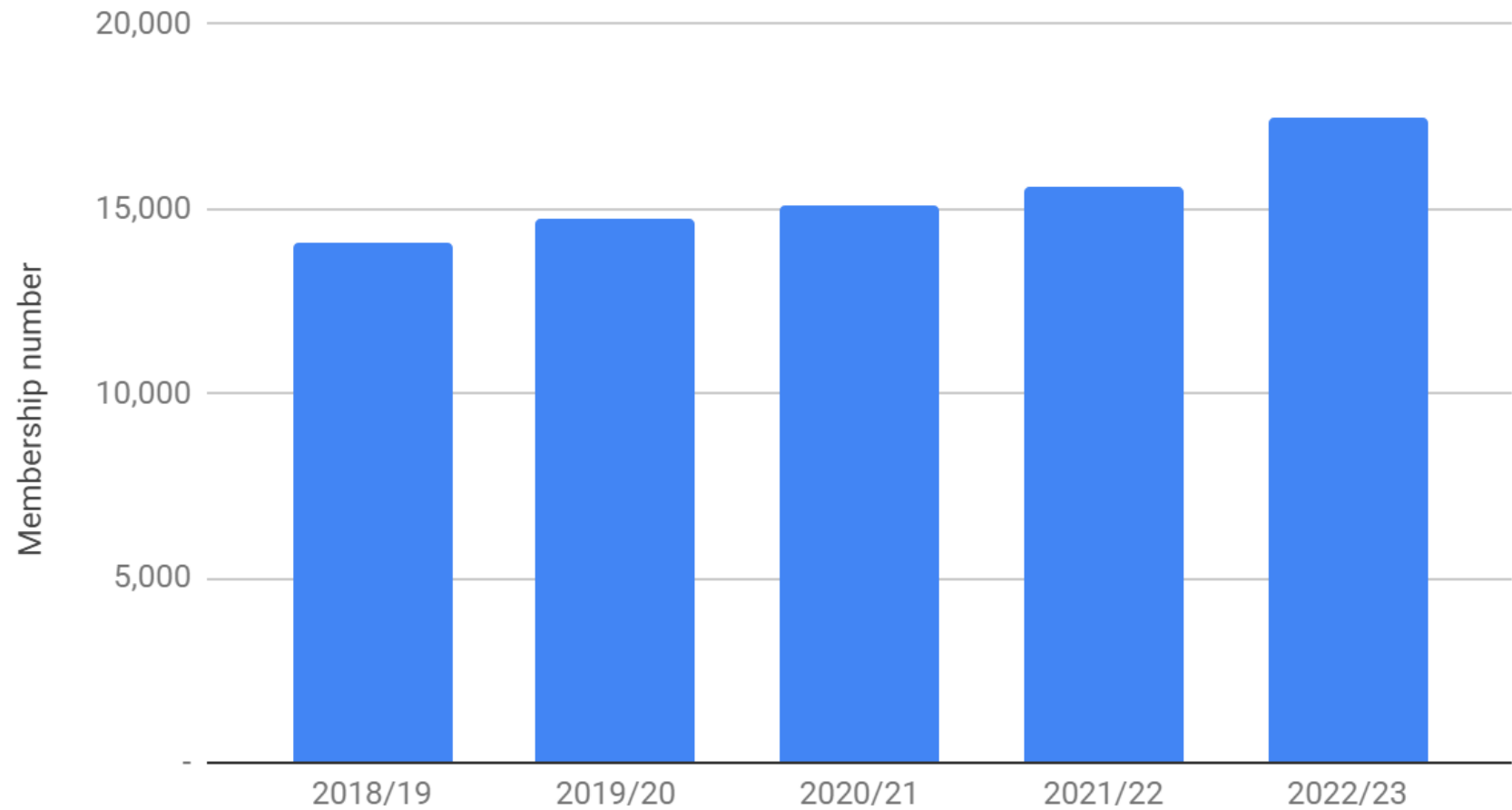
Normal retirement	Early retirement	Ill-health	Total
135	102	6	243

Active employer numbers

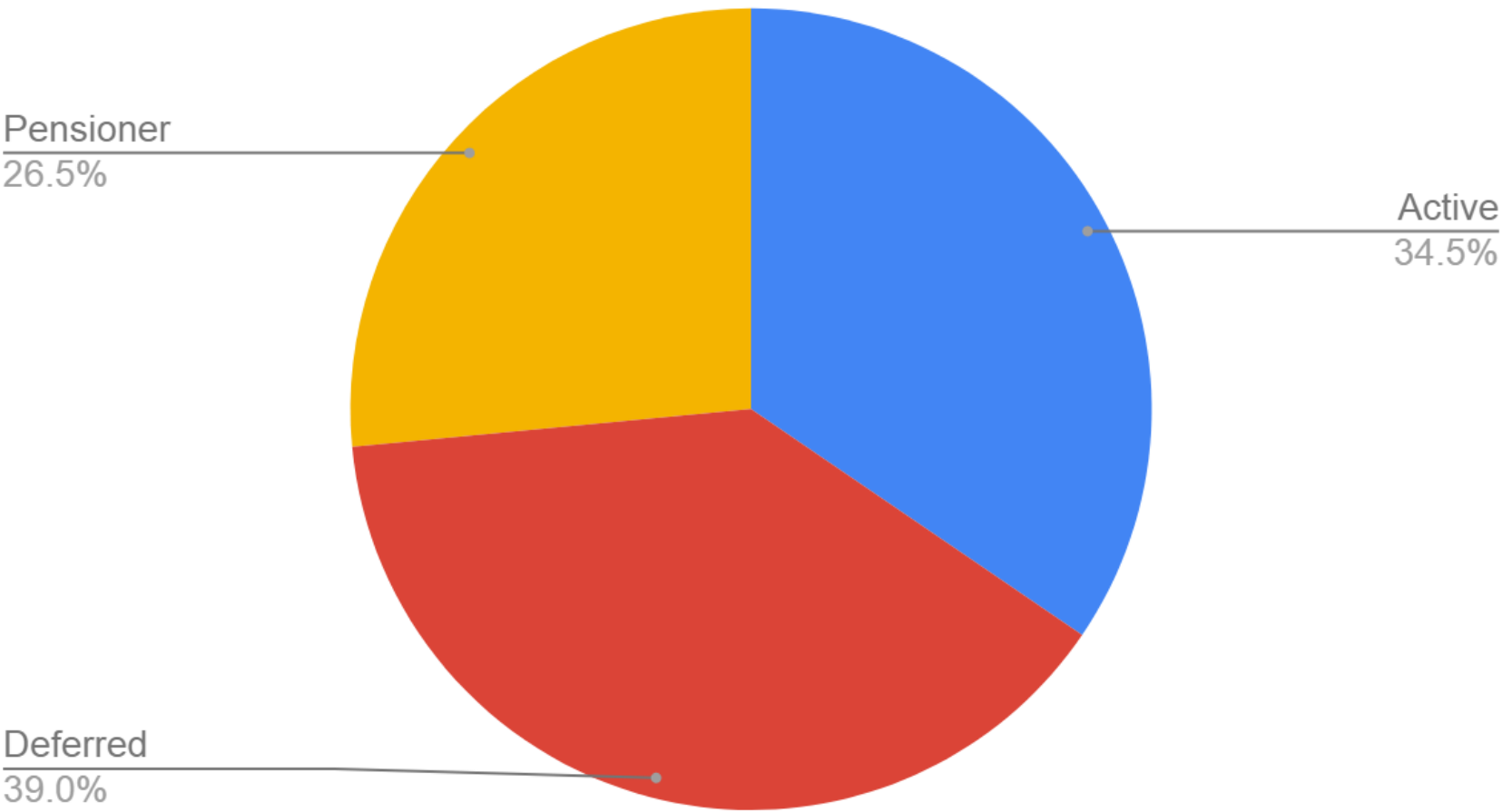
Scheduled (inc. Sutton Council)	Admitted	Total
46	14	60



Membership Numbers over 5 years



Membership Type 2022/23



7. GOVERNANCE

Role of the Pension Committee

The Pension Committee is responsible for all matters relating to the Pension Fund administered by Sutton Council 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 Council's Pension Fund operated by the London Borough of Sutton on behalf of all participating employees.

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:
 - a. the Council's performance targets for the managers;
 - b. 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 on 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 six elected members of the Council and two non-voting representatives. It meets four times per year. The membership of the Committee at the start of the 2023 municipal year was:

Councillor Cryss Mennaceur (Chair)
 Councillor Paul Cole
 Councillor Andrew Jenner
 Councillor Sam Martin
 Councillor Tom Drummond
 Councillor Patrick Magnus
 Jeremy Randall
 Fiona Kemp

The below table summarises the Committee attendance and training during the 2022 municipal year:

	Councillor Cryss Mennaceur	Councillor Sunita Gordon	Councillor Paul Cole	Councillor Richard Clifton	Councillor Tom Drummond	Councillor Peter Geiringer	Councillor Eric Allen (Substitute)
Committee attendance							
15 July 2022	✓	✓	✓		✓	✓	
27 September 2022	✓	✓	✓	✓	✓		✓
13 December 2022	✓		✓	✓	✓	✓	
14 March 2023	✓	✓	✓	✓	✓		✓

Training at committee							
Induction Training - Hymans	✓						
Valuation & Funding Strategy - Hymans	✓	✓	✓		✓	✓	
Responsible Investment	✓	✓		✓	✓		✓
Investment Strategy Review - Mercer	✓	✓	✓	✓	✓	✓	

Role of Pension Board

The pension fund must operate a Local Pension Board. The Pension Board helps the pension fund comply with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator. The Pension Board is made up of equal numbers of employer and member representatives. 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 extent of 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 on 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 an independent chair, three scheme employer representatives and three scheme member representatives. It meets four times per year. The membership of the Board at the start of the 2023 municipal year was:

Jonathan Bunt (Chair)
 Andrew Theobald (Vice-Chair)
 Councillor Sunita Gordon

Chris Reeve
Angela Russell
William Cody
Vacancy

The below table summarises the Board attendance and training during the 2022 municipal year:

	Jonathan Bunt	Michael Curran	William Cody	Chris Reeve	Andrew Theobald	Angela Russell	Councillor Colin Stears
Board attendance							
21 July 2022	✓	✓		✓	✓	✓	✓
13 October 2022	✓	✓		✓	✓		
12 January 2023	✓			✓	✓	✓	
30 March 2023	✓		✓	✓	✓		✓
Training at board							
Responsible Investment	✓	✓	✓			✓	
Investment Strategy Review - Mercer	✓	✓	✓				

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 at each meeting of the committee. The register is also reviewed by the Pension Board in its role of assisting the Council with securing compliance with control arrangements.

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 2022 and the results are summarised in the table below. This shows the Fund had a surplus of £6m, which represents a funding level of 101%. This compares with a funding level of 90% at the previous valuation in 2019. The full valuation report can be found here: [LBS AV 2022](#) The next valuation will be carried out during 2025.

Funding position

At 31 March 2022, the past service funding position has improved from the last valuation at 31 March 2019. Table 2 shows the reported funding position at the current and previous valuation.

Table 2: reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	254	216
Deferred Pensioners	209	163
Pensioners	384	353
Total Liabilities	848	732
Assets	854	661
Surplus/(Deficit)	6	(71)
Funding Level	101%	90%

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

TO BE INSERTED FOLLOWING COMPLETION OF THE 2022/23 AUDIT

10. PENSION FUND ACCOUNTS 2022/23

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 2023

2021/22			2022/23
£'000		Note	£'000
	Dealings with members, employers and others directly involved in the Fund		
(33,231)	Contributions	7	(33,341)
(3,665)	Transfers in from other pension funds	8	(3,861)
(36,896)			(37,202)
30,193	Benefits	9	32,135
20,439	Payments to and on account of leavers:	10	3,063
50,632			35,198
13,736	Net (additions) / withdrawals from dealings with members		(2,004)
6,571	Management expenses	11	7,816
20,307	Net (additions)/withdrawals including fund management expenses		5,812
	Returns on Investments		
(9,368)	Investment income	12	(15,406)
24	Taxes on income	13	23
(53,419)	(Profit) loss on disposal of investments and changes in the market value of investments	14b	53,823
(62,763)	Net (Return)/Loss on Investments		38,440
(42,456)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		44,252
(812,380)	Opening Net Assets of the Scheme		(854,836)
(854,836)	Closing Net Assets of the Scheme		(810,583)

Sutton Pension Fund Net Assets Statement for the year ended 31 March 2023

2021/22		Note	2022/23
£'000			£'000
150	Long term assets		150
857,504	Investment Assets	14	807,461
857,654	Total Net Investments		807,611
15,216	Current Assets	20	21,097
(18,034)	Current Liabilities	21	(18,125)
854,836	Net Assets of the Fund available to fund benefits at the end of the reporting period		810,583

PF Note 1 - Description of the Fund (continued)

Active Scheme employers at 31 March 2022 were as follows:

Scheduled bodies	Scheduled bodies (cont.)	Admission bodies
Abbey Primary School	Harris Academy Sutton	Citizens Advice - Sutton
Addington Valley Academy	Harris Junior Academy Carshalton	PlayWise Learning CIC
All Saints Carshalton CofE Primary School	LEO Academy Trust pool:	Caterlink
Beddington Park Academy	<ul style="list-style-type: none"> • <i>Brookfield Primary Academy</i> 	Cognus
Carew Academy	<ul style="list-style-type: none"> • <i>Cheam Common Infants' Academy</i> 	Compass Catering - Overton Grange
Carshalton Boys Sports College	<ul style="list-style-type: none"> • <i>Cheam Common Junior Academy</i> 	DB Services - Girls' Learning Trust
Cheam Academies Network pool:	<ul style="list-style-type: none"> • <i>Cheam Fields Primary Academy</i> 	Encompass LATC
<ul style="list-style-type: none"> • <i>Cheam High School</i> 	<ul style="list-style-type: none"> • <i>Cheam Park Farm Primary Academy</i> 	Energy Kidz - Muschamp
<ul style="list-style-type: none"> • <i>Oaks Park High School</i> 	<ul style="list-style-type: none"> • <i>LEO Academy Trust - Central Staff</i> 	Mitie TFM, including Mitie Security
Cirrus Primary Academy Trust pool:	<ul style="list-style-type: none"> • <i>Manor Park Primary Academy</i> 	Orchard Childcare
<ul style="list-style-type: none"> • <i>Avenue Primary Academy</i> 	London Borough of Sutton, including LEA schools	Pabulum - Glenthorne
<ul style="list-style-type: none"> • <i>Barrow Hedges Primary School</i> 	Orchard Hill College	Ridgecrest Cleaning - St Philomeana's
<ul style="list-style-type: none"> • <i>Cirrus Primary Academy Trust - Central Staff</i> 	Orchard Hill College Academy Trust - Central Staff	Saba Park Services
<ul style="list-style-type: none"> • <i>Rushy Meadow Primary Academy</i> 	Overton Grange School	Sports and Leisure Management
<ul style="list-style-type: none"> • <i>Stanley Park Infants School</i> 	Sutton Grammar School	
<ul style="list-style-type: none"> • <i>Wallington Primary Academy</i> 	Sutton Housing Partnership	

Scheduled bodies	Scheduled bodies (cont.)	Admission bodies
Girls' Learning Trust pool:	The Limes College	
• <i>Carshalton High School for Girls</i>	The Link School	
• <i>Girls' Learning Trust - Central Staff</i>	Wallington County Grammar School	
• <i>Nonsuch High School for Girls</i>	Wandle Valley Academy	
• <i>Wallington High School for Girls</i>	Westbourne Primary School	
Glenthorne High School	Wilson's School	
Greenshaw Learning Trust pool:		
• <i>Bandon Hill Primary School</i>		
• <i>Green Wrythe Primary School</i>		
• <i>Greenshaw High School</i>		
• <i>Tweeddale Primary School</i>		
• <i>Victor Seymour Infants' School</i>		
• <i>Wood Field Primary School</i>		

PF Note 1 - Description of the Fund (continued)

The following table summarises the membership numbers of the scheme:

2021/22		2022/23
No.		No.
59	Number of Employers with active members	60
Active Members		
2,596	London Borough of Sutton	2,614
2,925	Scheduled bodies	3,266
407	Admission bodies	159
5,928		6,039
Deferred Members		
4,829	London Borough of Sutton	4,954
1,313	Scheduled bodies	1,755
275	Admission bodies	110
6,417		6,819
Pensioners (including Dependents)		
3,899	London Borough of Sutton	4,070
388	Scheduled bodies	487
137	Admission bodies	79
4,424		4,636
16,769	Total	17,494

Deferred membership figures now include frozen refunds. Those are members that left their employment or opted out and did not meet the vesting period. They are eligible for a refund, or they can transfer their benefits to another scheme. within five years. The 2021/22 figures have been restated to allow a comparison of the numbers reported.

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. Further information is available at <https://www.lgpsmember.org>

e) Funding

The Pension Fund is financed by contributions from employees, employers 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. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

In 2022/23, employer contribution rates ranged from 15.7% to 28.3% of pensionable pay. Employer contribution rates payable from 1 April 2022 were set by the triennial valuation as at 31 March 2019, the results of which were published on 31 March 2020.

PF Note 2 - Basis of preparation

The statement of accounts summarises the Fund's transactions for the 2022/23 financial year and its position as at 31 March 2023. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2022/23' (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 2023 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.

PF Note 3 - Summary of significant accounting policies (continued)

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 critical judgements about complex transactions or those involving uncertainty about future events. There were no such critical judgements made during 2022-23.

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	<p>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.</p> <p>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.</p>	<p>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 £16m in the Fund's pension liability; a one year increase in member life expectancy would increase the liability by approximately £36m and a 0.1% increase in the rate of salary increase would increase the liability by approximately £1m.</p> <p>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.</p> <p>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.</p>
Unquoted investments	<p>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.</p> <p>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.</p>	<p>The potential impact of this uncertainty cannot be measured accurately. The total of level 3 funds held by the Pension Fund are valued at £133.1m, and the variation around this value is estimated to be +/- 10%, which equates to +/- £13.3m.</p>

PF Note 6 - Events after the reporting period end

The unaudited Statement of Accounts was authorised for issue by the Strategic Director - Resources (S151 Officer) on ___ 2023 and the audited Statement of Accounts were authorised for issue on ___. At this date there was one non-adjusting event to report:

The value of the investments of the Fund at 31 May 2023 shows a increase in market movement from £807.5m to £___m. This is an increase of £___m or __%.

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

2021/22		2022/23
£'000		£'000
(7,561)	Employees' contributions	(8,185)
	Employers' contributions	
(23,419)	Normal Contributions	(23,238)
(1,709)	Deficit Recovery Contributions	(1,853)
(541)	Augmentation contributions	(65)
(25,669)		(25,156)
(33,231)		(33,341)

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

PF Note 7 - Contributions receivable (continued)

By Authority

2021/22		2022/23
£'000		£'000
(18,192)	London Borough of Sutton	(16,194)
(12,640)	Scheduled bodies	(16,160)
(2,399)	Admitted bodies	(987)
(33,231)		(33,341)

PF Note 8 - Transfers in from other pension funds

2021/22		2022/23
£'000		£'000
(3,665)	Individual transfers	(3,861)
-	Group transfers	-
(3,665)		(3,861)

During the years ended 31 March 2023 and 31 March 2022, 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

2021/22		2022/23
£'000		£'000
26,221	Pensions	27,680
3,845	Commutation and Lump sum retirement benefits	4,215
127	Lump sum death benefits	240
30,193		32,135

By Authority

2021/22		2022/23
£'000		£'000
29,199	London Borough of Sutton	27,448
888	Scheduled bodies	3,955
106	Admitted bodies	732
30,193		32,135

PF Note 10 - Payments to and on account of leavers

2021/22		2022/23
£'000		£'000
158	Refunds to members leaving service	90
15,450	Group transfers	-
4,831	Individual transfers	2,973
20,439		3,063

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. This amount remained an accrual at 31 March 2023, as it was still unpaid at that date.

PF Note 11 - Management expenses

2020/22		2022/23
£'000		£'000
1,038	Administration Expenses	1,374
5,245	Investment Management Expenses	6,124
288	Oversight and Governance	318
6,571		7,816

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.

2021/22		2022/23
£'000		£'000
4,299	Management Fees	4,703
3	Performance Fees	3
106	Custody Fees	100
837	Transaction Costs	1,318
5,245		6,124

PF Note 11b - External audit costs

2021/22		2022/23
£'000		£'000
35	External audit costs	35
35		35

PF Note 12 - Investment income

2021/22		2022/23
£'000		£'000
	Pooled Investments:	
(2,892)	- Equities	(3,578)
(1,410)	- Property	(1,625)
(2,268)	- Multi Asset Credit	(2,717)
(1,781)	- Diversified Growth Funds	(1,776)
-	- Private Debt	(124)
(1,012)	- Infrastructure	(5,476)
(5)	Interest on Cash Deposits	(110)
(9,368)		(15,406)

PF Note 13 - Taxes on income

2021/22		2022/23
£'000		£'000
24	Withholding tax - pooled	23
24		23

PF Note 14 - Investments

2021/22	Investment Assets	2022/23
£'000		£'000
	Pooled Investment Vehicles:	
466,057	Equities	441,963
93,404	Fixed Income	50,531
56,371	Property	49,712
86,694	Multi Asset Credit	86,140
99,837	Diversified Growth Funds	95,660
37,664	Infrastructure	55,808
17,094	Private Debt	27,533
	Other Investment Balances:	
385	Cash deposits	43
(2)	Accrued income and recoverable taxes	71
857,504	Total Net Investment Assets	807,461

PF Note 14a - Analysis of Pooled Investment Vehicles

Pooled Investment Vehicles:				Other managed funds:		Total
2022/23	ACS	Unit trusts	Unitised insurance policies	OEIC	SICAV	
	£'000	£'000	£'000	£'000	£'000	£'000
Equities	216,393	151,894	73,676	-	-	441,963
Fixed Income	-	-	50,531	-	-	50,531
Property	-	33,055	-	-	16,657	49,712
Multi Asset Credit	28,406	-	-	57,734	-	86,140
Diversified Growth Funds	95,660	-	-	-	-	95,660
Infrastructure	-	19,920	-	-	35,888	55,808
Private Debt	-	27,533	-	-	-	27,533
	340,459	232,402	124,207	57,734	52,545	807,347

Pooled Investment Vehicles:				Other managed funds:		Total
2021/22	ACS	Unit trusts	Unitised insurance policies	OEIC	SICAV	
	£'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

PF Note 14a - Analysis of Pooled Investment Vehicles (continued)

ACS - UK tax transparent collective investment scheme used by the LCIV.

Unit trust - an open-ended investment, where an unlimited number of investors can invest their money into a single fund, that's managed by a dedicated fund manager.

Unitised insurance policies - open-ended investments made available through life assurance companies.

OEIC - "Open-Ended Investment Company" that will issue (or redeem) shares on a regular basis in response to investor demand.

SICAV - "Société d'investissement à capital variable", similar to an OEIC but used in Europe.

PF Note 14b - Reconciliation of movements in investments

2022/23	Value 31 March 2022	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2023
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	466,057	3,579	(1,346)	(26,327)	441,963
- Fixed Income	93,404	-	(20,015)	(22,858)	50,531
- Property	56,371	145	(221)	(6,583)	49,712
- Multi Asset Credit	86,694	2,713	(602)	(2,665)	86,140
- Diversified Growth Funds	99,837	1,776	(1,504)	(4,449)	95,660
- Infrastructure	37,664	19,474	(8,546)	7,216	55,808
- Private Debt	17,094	11,566	(2,872)	1,745	27,533
Sub-total Investments	857,121	39,253	(35,106)	(53,921)	807,347
Other Investment Balances:					
Cash deposits	385			97	43
Accrued income and recoverable taxes	(2)			-	71
Net Investment Assets	857,504			(53,823)	807,461

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

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 14c - Investments analysed by fund manager

The market value of the investment assets under the management of each fund manager as at 31 March 2023 is shown below.

31 March 2022			31 March 2023	
Market Value	% of total	Fund Manager	Market Value	% of total
£'000	%		£'000	%
Investments managed by London Collective Investment Vehicle				
47,948	5.6%	Pyrford - LCIV Global Total Return Fund	48,159	6.0%
51,889	6.1%	Baillie Gifford - LCIV Diversified Growth Fund	47,502	5.9%
103,823	12.1%	Newton - LCIV Global Equity Fund	104,074	12.9%
121,626	14.2%	RBC - LCIV Sustainable Equity Fund	112,319	13.9%
29,720	3.5%	CQS - LCIV Multi Asset Credit Fund	28,406	3.5%
17,094	1.9%	Pemberton & Churchill - LCIV Private Debt Fund	27,533	3.4%
-	0.0%	BlackRock, Stonepeak, Quinbrook, and Foresight - LCIV Renewable Infrastructure	19,920	2.5%
372,100	43.4%		387,913	48.1%
Investments managed outside of London Collective Investment Vehicle				
166,187	19.3%	Harding Loevner Funds Plc Global Equity Fund	151,894	18.8%
74,422	8.7%	Legal & General - Future World Global Equity Index Fund	73,675	9.1%
93,404	10.9%	Legal & General Over 5 Year Index Linked Gilts Fund	50,531	6.3%
56,974	6.6%	M&G Alpha Opportunities Fund	57,734	7.2%
13,596	1.6%	LaSalle Investors UK Real Estate Fund of Funds	11,417	1.4%
26,376	3.1%	BlackRock UK Property Fund	21,637	2.7%
16,398	1.9%	Invesco Real Estate UK Residential Fund SCSp	16,658	2.1%
37,664	4.4%	Partners Group Direct & Global 2015 S.C.A., SICAV-SIF & Global 2012 S.C.A., SICAR	35,888	4.3%
485,021	56.6%		419,434	51.9%
857,121	100.0%	Total	807,347	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.

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

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
Pooled private debt investments	Level 3	Valued by underlying investment managers	NAV based pricing with many unobservable inputs	Valuations could be affected by a range of variables, such as the quality of underlying collateral, or varying liquidity

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 2023 and 31 March 2022.

2022/23	Potential variation in fair value	Value at 31 March 2023	Potential value on increase	Potential value on decrease
	+/-	£'000	£'000	£'000
Pooled Investment Vehicles:				
- Property	10%	49,712	54,683	44,741
- Infrastructure	10%	55,808	61,388	50,227
- Private Debt	10%	27,533	30,287	24,780
Total		133,053	146,358	119,748

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

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 2022					31 March 2023			
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:				
391,636	74,421		466,057	Equities	368,287	73,675		441,962
	93,404		93,404	Fixed Income		50,531		50,531
		56,371	56,371	Property			49,712	49,712
	86,694		86,694	Multi Asset Credit		86,140		86,140
	99,837		99,837	Diversified Growth Funds		95,660		95,660
		37,664	37,664	Infrastructure			55,808	55,808
		17,094	17,094	Private Debt			27,533	27,533
391,636	354,356	111,129	857,121	Financial Assets at fair value through profit and loss	368,287	306,006	133,053	807,347

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

2022/23	Value 31 March 2022	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2023
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	56,371	-	-	145	(221)	(6,583)	49,712
- Infrastructure	37,664	-	-	19,474	(8,546)	7,216	55,808
- Private Debt	17,094	-	-	11,566	(2,872)	1,745	27,533
Total	111,129	-	-	31,185	(11,639)	2,378	133,053

truments

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

2021/22		2022/23
£'000		£'000
	Financial Assets	
53,369	Designated at fair value through profit and loss	(53,921)
50	Designated at amortised cost	98
53,419		(53,823)

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.

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)

Interest rate – risk sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets, but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances, but they will affect the interest income received on those balances.

Assets exposed to interest rate risk:

2022/23	Asset Values at 31 March 2023	Impact of 1% increase	Impact of 1% decrease
	£'000	£'000	£'000
Cash	18,279	18,279	18,279
Fixed interest bonds	66,997	65,010	68,984
Variable rate bonds	19,143	18,594	19,692
Total	104,419	101,883	106,955

2022/23	Interest receivable 31 March 2023	Value on 1% increase	Value on 1% decrease
	£'000	£'000	£'000
Cash	(110)	(111)	(109)
Fixed interest bonds	2,016	2,016	2,016
Variable rate bonds	696	791	776
Total	2,602	2,696	2,683

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

2021/22	Asset Values at 31 March 2022	Impact of 1% increase	Impact of 1% decrease
	£'000	£'000	£'000
Cash	13,554	13,554	13,554
Fixed interest bonds	51,790	50,438	53,142
Variable rate bonds	34,904	34,211	35,597
Total	100,248	98,203	102,293

2021/22	Interest receivable 31 March 2022	Value on 1% increase	Value on 1% decrease
	£'000	£'000	£'000
Cash	5	5	5
Fixed interest bonds	1,274	1,274	1,274
Variable rate bonds	994	1,033	1,013
Total	2,273	2,312	2,292

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 2023, 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 2023. 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 31/03/2022	Value on 9.8% price increase	Value on 9.8% price decrease	Currency Exposure - Asset Type	Value as at 31/03/2023	Value on 10% price increase	Value on 10% price decrease
£'000	£'000	£'000		£'000	£'000	£'000
445,900	489,599	402,202	Overseas equities	427,474	470,221	384,727
13,596	14,929	12,264	Overseas property	11,417	12,559	10,275
68,868	75,617	62,119	Overseas multi asset credit	72,508	79,759	65,257
62,914	69,079	56,748	Overseas diversified growth funds	61,877	68,064	55,689
37,664	41,355	33,973	Overseas infrastructure	43,416	47,757	39,074
14,786	16,235	13,337	Overseas private debt	24,786	27,264	22,307
643,728	706,814	580,643	Total assets available to pay benefits	641,478	705,624	577,329

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

Other Price Risk -Sensitivity Analysis

Value as at 31/03/2022	Change +/-	Value on increase	Value on decrease	Asset Type	Value as at 31/03/2023	Change +/-	Value on increase	Value on decrease
£'000	%	£'000	£'000		£'000	%	£'000	£'000
466,057	18.0	549,947	382,167	Equities	441,963	18.1	521,958	361,967
93,404	7.6	100,503	86,305	Fixed income	50,531	9.6	55,382	45,680
56,371	15.1	64,883	47,859	Property	49,712	14.1	56,721	42,702
86,694	9.6	95,017	78,371	Multi Asset Credit	86,140	10.9	95,529	76,750
99,837	10.3	110,120	89,554	Diversified Growth Funds	95,660	10.2	105,418	85,903
37,664	15.1	43,351	31,977	Infrastructure	55,808	15.4	64,402	47,213
17,094	10.6	18,906	15,282	Private Debt	27,533	11.5	30,700	24,367
857,121		982,727	731,515	Total	807,347		930,110	684,582

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 2022/23 were based on the actuarial valuation carried out as at 31 March 2019 (the next valuation has been undertaken as at 31 March 2022 and is effective from 1 April 2023) by the Fund's actuary. 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.

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.

PF Note 18 - Funding arrangements (continued)

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%

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

PF Note 18 - Funding arrangements (continued)

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 2023, 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 2022 (revised)		31 March 2023
£'m		£'m
(1,228)	Actuarial present value of promised retirement benefits	(888)
855	Net fund assets available to fund benefits	811
(373)	Net Liability	(77)

The promised retirement benefits at 31 March 2023 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. The comparative values at 31 March 2022 have been revised based on the triennial valuation at 31 March 2022, which was completed after finalisation of the previous year's statement of accounts.

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2023 and 31 March 2022, as shown in the table below.

PF Note 19 - Actuarial present value of promised retirement benefits (continued)

2021/22		2022/23
%		%
3.2	Pension increase rate (CPI)	3.0
4.2	Salary increase rate	3.0
2.7	Discount rate	4.8

PF Note 20 - Current assets

31 March 2022		31 March 2023
£'000		£'000
1,587	Contributions	2,565
458	Other debtors	367
13,171	Cash at Bank	18,165
15,216	Total Current Assets	21,097

PF Note 21 - Current liabilities

31 March 2022		31 March 2023
£'000		£'000
(15,450)	Transfers out	(14,560)
(1,270)	Other Creditors	(1,927)
(1,314)	Current payables	(1,638)
(18,034)	Total Current Liabilities	(18,125)

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 reported annually on 31st May. Total contributions paid by members in Clerical Medical during 2022/23 were £___k (£119k in 2021/22), as below. There are no active contributors with Utmost.

31 May 2022	31 May 2023
£'000	£'000
119	Clerical Medical
119	-

At 31 May 2023, the total estimated value of the AVC funds with Clerical Medical and Utmost was £___k (£796k at 31 May 2022).

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 2022/23 was £1,062,692 (£920,851 in 2021/22)

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

The key management personnel for the Pension Fund are the members of the Pension Fund Committee, the Strategic Director - Resources (S151 Officer), the Head of Pensions Investments and the Head of Pensions Administration. Their remuneration is set out below:

PF Note 23 - Related party transactions (continued)

31 March 2022		31 March 2023
£'000		£'000
98	Short-term benefits	102
214	Post-employment benefits	139
312		241

PF Note 24 - Contingent liabilities and contingent assets

There are no known material contingent assets as at 31 March 2023. There are no outstanding contractual commitments and no material relating non-adjusting events occurring subsequent to the period end.

11. GOVERNANCE COMPLIANCE STATEMENT

Introduction

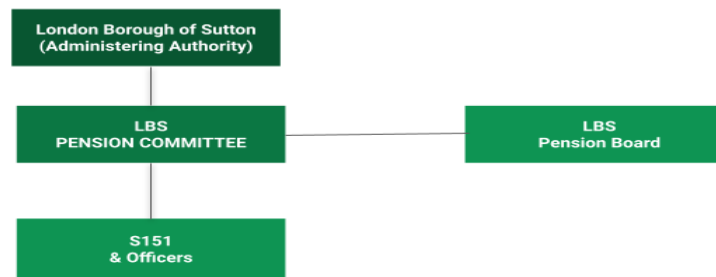
Regulation 55(1) of the Local Government Pension Scheme Regulations 2013 (SI2014-1146) requires the Administering Authority (Sutton Council) to maintain a statement, which assesses the pension fund governance arrangements against guidance from the Secretary of State, and to make revisions to the statement 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	Compliant	The Council Constitution clearly sets out that responsibility for the management of the Pension Fund which is discharged through a formal decision-making

appointing council.		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 committee established to underpin the work of the main committee.	Compliant	The Committee approved representatives of both employers and scheme members to be members of the Pension 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	Compliant	The Committee approved representatives of both employers and scheme members to be members of the Pension Committee.

employers), scheme members (including deferred and pensioner scheme members), independent professional observers, expert advisors (on an ad-hoc basis).		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	Compliant	There are stakeholder representatives on the Committee. Consultation with key stakeholders takes place

arrangements by which the interests of key stakeholders can be represented.		
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

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 termination of office.	Compliant	<p>The Pension Board consists of 7 members and is constituted as follows:</p> <p>3 Scheme employer representatives</p> <p>3 scheme member representatives</p> <p>Independent Chair selected by the Administering Authority each role.</p> <p>Vacancies are publicised.</p> <p>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.</p>

		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 they are appointed.	Compliant	The terms cover the appointment of an independent chair and a vice chair and their responsibilities
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	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

Administering Authority should also be set out.		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 with urgent items of business and the publication of information.	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 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 a minimum number of employer and member representatives.	Compliant	A meeting is only quorate when at least one employer member representative, one employer 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	Compliant	The Board is required to report its requests, recommendations or concerns to the Pension Committee.

arrangements where the Board has material concern. In addition the methods used to communicate to scheme members and employers should be included.

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

		<p>of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistleblowing policy].</p> <p>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.</p> <p>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.</p>
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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 previously 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
Private Equity	0.0	0
Total Growth	50.0	45.0-55.0
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
Impact	10.0	8.0-12.0
Total Income	44.0	34.5-53.5
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 2022 actuarial valuation the Fund Actuary has assumed a discount rate and therefore required rate of return on the Fund assets of 4.3% 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 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 2022 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 Fund'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	12.0	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	14.1	Benchmark: MSCI All Countries World Index Performance objective: At least 1.5% above benchmark over rolling 3 year period (net of fees)
Multi-asset credit	CQS PIMCO	3.3	Benchmark: SONIA Performance objective: +4.0% p.a. (net of fees)
Diversified Growth Funds	Baillie Gifford	5.7	Benchmark: 3 month LIBOR + 3% Performance objective: 3% above benchmark over rolling 3 year period (gross of fees)
Diversified Growth Funds	Pyrford	5.8	Benchmark: 3 month LIBOR + 3% Performance Objective: 3% above benchmark over rolling 3 year period (gross of fees)

Private Debt	Pemberton, Churchill	2.8	Zero benchmark Performance objective: +6.0% to +8.0% p.a. (net of fees)
Renewable Infrastructure	Foresight, BlackRock, Quinbrook, Stonepeak	2.0	Zero benchmark Performance objective: IRR (net of fees) of 7 - 10 %, with a target yield 3 - 5% per annum

The fund holds **15.2% or £121.1m** 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 of preparing this statement the Fund holds the following mandates outside of the London CIV. Opportunities for investing in these asset classes through the CIV will be reviewed as and when opportunities arise.

Asset class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the London CIV Pool
Global Equities	Harding Loevner	18.3	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	5.0	Zero benchmark +7.0% to +12.0% p.a. (net of fees) depending on fund	Already committed to investing with existing manager
Multi-asset credit	M&G (Alpha Opps Fund)	6.8	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
Property	Blackrock	3.3	Benchmark: IPD UK All Pooled Property Funds Index Performance objective: To outperform the benchmark	No property managers on London CIV
Property	LaSalle	1.7	Benchmark: IPD UK All Pooled Property Funds Index Performance objective: To outperform the benchmark	No property managers on London CIV
Property	Invesco	2.2	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:

Governance Framework

Stakeholders

London CIV is an FCA regulated company limited by shares whose 32 London Local Authority shareholders are its only clients. It was established as a collective venture in 2015 to provide a more effective vehicle for managing the pooled pension fund assets of the London Local Authorities.

The client funds and their beneficiaries are London CIV's key stakeholders and London CIV's purpose statement underlines the importance of adding value to all the stakeholders which it serves and delivering sustainable prosperity. Other stakeholders include the Department for Levelling Up, Housing and Communities (DLUHC), London taxpayers and the users of London local government services which include education, public health, social care, waste management, housing and culture.

Responsible Investment is core to all we do and prosperity is one of four World Economic Forum "pillars" alongside People, Planet and Principles of Governance. It is defined as "an ambition to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature". Our Responsible Investment and Stewardship Policy describes what prosperity means for London CIV in the following terms "our primary goal is to help our clients with meeting their pension commitments, ensuring that people are not vulnerable to financial challenges that could minimise the ability to prosper.

An effective governance framework is key to London CIV's operation, long term success and sustainability, and to our legal and regulatory requirements. The business model is characterised by visibly high levels of client fund engagement, in particular in respect of Client Fund involvement in fund launch development (Seed Investor Groups "SIGs"). We have an active Responsible Investment Reference Group (RIRG), chaired by Cllr Robert Chapman of LB Hackney, which has provided a sounding board to steer the development of our Responsible Investment and Stewardship activity. The Cost Transparency Working Group (CTWG) chaired by a s151 Officer has supported us in the work to review our funding model and develop our cost transparency and benchmarking activity. During 2022/23 CTWG was chaired by John Turnbull of LB Waltham Forest who at the turn of the reporting year was succeeded by Damon Hill of Royal Borough of Greenwich.

London CIV committee structure

Formal Governance



Informal Client Fund Engagement

Fund launch governance and engagement framework

Responsible Investment Reference Group (RIRG)

Cost Transparency Working Group (CTWG)

The Terms of Reference of the Shareholder Committee include the Trade Union member as a voting member which means that beneficiaries are explicitly included in our governance structures, in line with Scheme Advisory Board (SAB) expectations and Investment Association guidance in respect of good corporate governance in respect of stakeholders. This is consistent with the Committee's consultative role and responsibility for identifying emerging issues which may impact on the Company or shareholders and assists Directors in fulfilling their Companies Act s172 obligation to consider the impact of decisions on stakeholders.

London CIV is a UK Stewardship Code signatory. The Responsible Investment and Stewardship section of this report provides more information about how the Company has fulfilled its stewardship responsibilities and more information can be found in the Stewardship Outcomes report and other Climate and Stewardship reports and policies including the TCFD report published on the website at www.londonciv.org.uk

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 Pension 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.

Prepared by:-

Andrien Meyers

For and on behalf of the London Borough of Sutton Pension Fund Committee

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.

Appendix 2: Responsible Investment Policy

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.

Stewardship - Voting & Engagement

The Fund recognises the importance of responsible and active ownership and has a duty to exercise its stewardship and active ownership responsibilities (such as use of proxy voting rights and encouraging its appointed investment managers to actively engage with investee companies) effectively by using its influence as a long-term investor to encourage positive behaviour.

- The Fund supports the Local Authority Pension Fund Forum ("LAPFF") stance regarding engagement with investee companies, rather than divestment from certain sectors. The Panel considers that pursuing an engagement-led approach is consistent with its fiduciary duty to members, and allows the Fund, through the actions of its appointed investment managers, to be an active participant in encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world, including supporting the transition to a low carbon economy.
- In the first instance, the Fund expects its appointed fund managers (including London CIV) will use engagement tools to improve

standards and long-term sustainability characteristics of investee companies. Where this proves unsuccessful, the Fund would support a decision to divest. The Fund will communicate its beliefs to its appointed fund managers and expects that they will provide evidence of their engagement activity, including case studies, on an annual basis.

- Besides exclusions made purely on the basis of investment characteristics (i.e., investment in sectors which, in the view of the appointed investment managers, do not have a sustainable future or attractive potential), the Fund do not support maintaining an 'exclusions list' of sectors or stocks, and will avoid selecting investment managers which make exclusionary decisions based on ethical or moral principles.
- The Fund will monitor the stewardship activity of its appointed fund managers (including London CIV) and expects that they will highlight examples of thematic voting (for example, on matters such as climate change, human rights, and strong standards of corporate governance) and outcomes.
- In the event that voting rights are not used, the Fund will ask that their appointed fund managers explain why this is the case.
- The Fund will request details from their appointed fund managers (including London CIV) regarding how voting decisions are made (e.g. whether based on recommendations of proxy voting agencies), and seek explanation of voting activity which conflicts with the Committee's agreed priorities (e.g. where votes are cast against introduction of TCFD, formal carbon target reductions, best practice in corporate governance standards; etc).

The Fund believes that collaboration via the London CIV gives rise to stewardship and engagement opportunities, as does the Fund's continued membership of LAPFF as well as broader collaboration with other investors.

- The Fund will engage with the London CIV regarding prioritisation of engagement themes, and use collective weight of institutional capital to impress upon their appointed investment managers the importance of these.
- The Fund will continue to participate in LAPFF to actively shape their agenda and priorities on stewardship matters.
- The Fund may consider joining other investment industry collaboration initiatives in future to work with other investors to achieve greater traction on sustainability issues.

Climate change actions

Considering the implications of, and seeking to mitigate, climate change related risks as well as take advantage of opportunities is consistent with the Fund's fiduciary duty and is fundamental to the ability to continue to generate long-term sustainable returns within the Fund's

investment portfolio. Accordingly, the Fund recognises that climate change is one of the material ESG factors that pose a potential financial risk over the Fund's investment timescale.

- The Fund will communicate its view of the importance of climate change as a key risk to the Fund's appointed investment managers (including London CIV). The Panel will also communicate its view that there is the potential for investment opportunities to arise as a result of the transition to a low-carbon economy.
- The Fund expects its appointed investment managers (including London CIV) to provide evidence of their consideration of climate change as a factor which affects portfolio construction on an ongoing basis.
- The Panel expects that its appointed investment managers (including London CIV) will actively support the transition to a low-carbon economy by supporting low-carbon energy investment, resolutions regarding carbon target reduction, and corporate disclosures in line with the Taskforce for Climate-related Financial Disclosures ("TCFD") framework.
- The Fund will communicate to its appointed fund managers its belief that corporate disclosures under the TCFD framework assist in understanding carbon exposure across the production and supply chain, and expects that they will support motions to introduce TCFD reporting.

The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks and acknowledges the importance of considering climate change risk holistically.

- The Fund will undertake climate risk analysis across the Fund's portfolio to establish the Fund's exposure over time to climate risk.
- The Fund will seek to adopt and report on the recommendations of TCFD within a 12 month period of the approval of this policy statement.
- The Fund will set an ambition to achieve net zero by 2050.

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) (<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 be 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 meet 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:
 - o 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.
 - o Allowing employers with no active employees 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 (Management and Investment of Funds) Regulations 2016	At least every three years
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
<p>Maintain a ‘breaches of law’ register and notify The Pension Regulator of any materially significant breaches, which may result from:</p> <ul style="list-style-type: none"> • 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 	As soon as practicable
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	As soon as practicable

interim and/or cessation valuations	
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 leave, unauthorised absences, reductions in pay and 50/50 scheme elections) using the required form or template	20 working days after their starting date, leaving date or date of the change
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: <ul style="list-style-type: none"> • calculate a retirement quotation (over 55s only) • update your personal details • view your service, earnings and contributions information • view your annual benefit statements 	Not applicable
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
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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	20 working days	60 working days	Three months

transfer out or divorce proceedings	from receipt of all information	from date of request	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 all information	40 working days from date of request	No more than two months from 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.

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