

LONDON BOROUGH OF SUTTON

PENSION FUND ANNUAL REPORT 2017-18

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SECTION 1 - FOREWORD

Introduction from the new Chair of the Pension Committee, Councillor Jill

Whitehead

I am pleased to present to all our members the Pension Fund Annual Report for 2017/18.

I would like to start by introducing myself as the new Chair of the Committee and by thanking my predecessor, Councillor Sunita Gordon, and the Members of the Committee for carrying out their duties with such diligence during the last year.

I hope you find this Report explains in an understandable way how your Fund has been operating in the last year. The Report includes information on:

- 2017/18 audit accounts;
- Fund investments;
- membership of the Fund; and
- administration of the Fund

The Fund is overseen by the Pension Committee which reports directly to Full Council. Under the Council's constitution this keeps responsibility for the Pension Fund separate from the political Executive function, as ultimately the Fund belongs to its members rather than the Council.

The Committee acts as trustee for the Fund and currently comprises four Liberal Democrat Councillors, and two Conservative Councillors.

With the support of professional investment advisers, Hymans Robertson and the Fund actuary, Barnett Waddingham, the Committee reviews the investment performance of the Fund, meets regularly with fund managers, monitors and reviews the investment strategy and any other matters affecting the Fund.

Actuarial valuation of the Pension Fund is carried out every three years to assess the assets and liabilities of the Fund. This is a significant piece of work by Barnett Waddingham in conjunction with officers. The most recent valuation was undertaken as at 31 March 2016 and showed that the Fund was 80% funded, a substantial improvement on the previous result in 2013. Informal interim valuations have taken place more recently and show a continuing improvement in the funding level. During 2017/18, the focus of the Committee was on reviewing the existing investment strategy to ensure the continued high performance of the Fund.

I hope you find this Report helpful and informative.

Jill Whitehead, Chair of the Pension Committee

SECTION 2 - MANAGEMENT AND FINANCIAL PERFORMANCE

Management Arrangements and Advisers

Administering Authority

London Borough of Sutton

Supporting Officers

Gerald Almeroth, Strategic Director – Resources (Lead Officer for the Pension Fund)
Lyndsey Gamble, Head of Investment, Risk and Commercial Finance - Resources
Bradley Peyton, Head of Insurance, Pensions and Records Management (Interim)
Paul Audu, Investments, Insurance and Commercial Manager
David Kellond, Pensions Administration Manager
Lisa Doswell, Senior Finance Lead - Treasury and Pensions

Investment Managers

Equities (Active)

Newton (London CIV)

Harding Loevner

Schroders

Pooled Multi Asset

Baillie Gifford (London CIV)

Pyrford (London CIV)

Fixed Income

M&G

Equities (Passive)

Legal and General

Property

BlackRock

Aviva

Invesco

Infrastructure

Partners Group

Investment Adviser

David Walker, Hymans Robertson

Actuary

Alison Hamilton, Barnett Waddingham

Banker

Lloyds Bank

AVC Provider

Clerical Medical

Auditor

Grant Thornton

Performance Monitoring

Northern Trust

Custodian

Northern Trust

Governance Arrangement

Role of Pension Committee

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

The Committee consists of 6 elected Members of the Council and it meets at least four times a year. Members have full voting rights. During 2017/18 the following persons held these posts:

Committee Members

Cllr. Sunita Gordon (Chair)
Cllr. Hamish Pollock (Vice Chair)
Cllr. Richard Broadbent
Cllr. Neil Garratt
Cllr. Edward Joyce
Cllr. Nick Matthey

Following the local elections in May 2018 the elected members on the committee has changed. The Committee from 21 May 2018 is as follows:

Cllr Jill Whitehead (Chair)
Cllr Ben Andrew (Vice Chair)
Cllr Nali Patel
Cllr Martina Allen
Cllr Param Nandha
Cllr Edward Joyce

Role of Pension Board

The Pension Board was established by Full Council at the meeting held on 2 March 2015. An independent Chair was duly appointed. The Board's Terms of Reference were approved at the meeting on 20 April 2015 and are attached at Appendix II.

The Board consists of 6 voting members; 3 scheme member representatives, 3 employer representatives and an independent Chair. During 2017/18 the following persons held these posts:

Chair

Michael Ellsmore

Employer Representatives

Tony Kerslake (Cheam High School) up to April 2017
Robert Jordan (Cheam High School) from June 2017
Ashley Thomas (Sutton Citizens Advice Bureau)
Existing Vacancy

Member Representatives

Michael Curran (Retired LBS employee)
Trevor Harris (Trade Union representative)
Chris Reeve (Contributing LBS employee)

The Pension Committee and the Pension Board are supported by the Strategic Director - Resources (S151 Officer), Head of Investment, Risk and Commercial Finance - Resources and Head of Insurance, Pensions and Records Management (Interim). During the year the Investment Adviser and the Fund Actuary attended Board meetings to provide advice, support and training.

London Collective Investment Vehicle (CIV)

Early in 2018 a consultation began on a number of proposed changes to the governance arrangements for the CIV. The proposals were for the Pensions CIV Joint Sectoral Committee (PCJSC) to be replaced with a shareholders committee made up of 12 members (8 Chairs of the London Pension Committees and 4 Local Authority Treasurers to include Cllr Jill Whitehead, Chair of the Sutton Pension Committee). It was also proposed that two more Non Executive Directors representative of the shareholders are appointed to the CIV board. These are expected to be two leaders of London Local Authorities. A treasurer will also be nominated as an observer but not a member of the

London CIV board. These proposed arrangements are expected to improve governance arrangements and decision making of the London CIV with the benefits flowing to London Pension Funds. The proposals were agreed at the CIV Annual General Meeting held on 12 July 2018.

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 Appendix III

Risk Management

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

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

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

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

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 comfort letter, about their internal control environment.

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

The current risk register is shown at Appendix VIII

Financial Performance

Fund Income and Expenditure From 2015/16 to 2017/18

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

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Contributions receivable	(30,587)	(34,116)	(34,359)
Benefits payable	32,630	26,518	32,125
Net payment (to)/from the Fund	2,043	(7,598)	(2,234)
Fund management expenses	3,192	3,263	6,115
Net returns on investment	(3,453)	(4,420)	(9,923)
Change in market value	(2,172)	(102,281)	(17,404)
Net increase in the Fund	(390)	(111,036)	(23,446)

The above table shows that in 2016/17 and 2017/18 payments into the Fund (contributions receivable) exceeded the level of benefits paid resulting in a net positive cashflow into the Fund of £7.6m and £2.2m respectively.

Taking into account management expenses, investment returns and changes in the market value of assets, the Fund has increased overall by £134m since 2015/16.

Fund Net Assets

The table below shows the market value of the Fund assets over the last three years. The table shows that the value of assets increased in 2017/18.

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Equities	311,384	391,235	404,028
Fixed Interest	86,840	93,496	94,403
Index Linked	37,755	49,080	49,518
Property	35,239	50,113	54,927
Cash Deposits	13,377	8,577	15,550
Other	22,526	25,656	23,177
Total Investment Assets	507,121	618,157	641,603

Analysis of Contributions (to) and From the Fund

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Contributions Receivable			
- Members	(5,889)	(5,661)	(5,940)
- Employers	(23,188)	(24,608)	(24,849)
- Transfers in	(1,510)	(3,847)	(3,570)
Total Contributions	(30,587)	(34,116)	(34,359)
Benefits Payable			
- Pensions	19,667	20,435	21,240
- Lump sum retirements and death benefits	4,729	4,095	4,550
- Transfers out	8,181	1,914	6,250
- Refunds	53	74	85
Total Benefits Payable	32,630	26,518	32,125
Net Payment to / (from) the Fund	2,043	(7,598)	(2,234)

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 three years are shown in the table below.

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Administration Cost			
Internal support costs	300	322	303
Pension IT system costs	100	29	90
Other	33	34	107
Sub-total Administration Costs	433	385	500
Investment Management Expenses			
Management fees	2,622	2,727	5,442
Custodian	36	45	45
Sub-total Investment Management Expenses	2,658	2,772	5,487
Oversight and Governance Costs			
Actuarial fees	6	33	45
External audit	21	21	21
Investment advice	67	36	45
Other	7	16	17
Sub-total Oversight & Governance Costs	101	106	128
Total Fund Management Expenses	3,192	3,263	6,115

The cost of managing the Pension Fund represents approximately 0.95% of the value of the Fund as at 31 March 2018, which is larger than in previous years, primarily due to the inclusion of additional transaction costs that have not previously been included and an increase in management fees for Partners Group, as two new sub funds were invested with during the year.

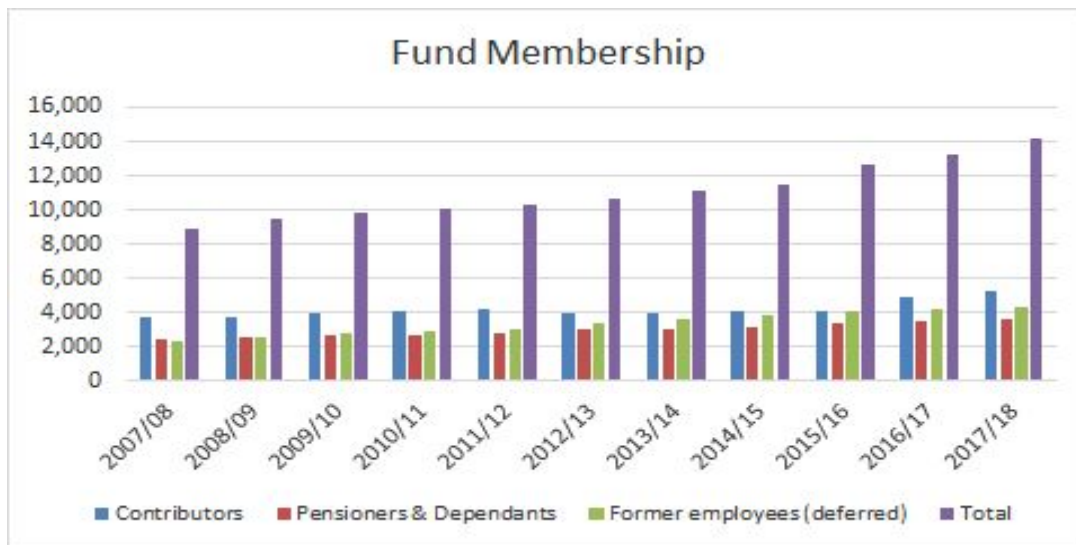
A three year budget and cashflow for the Fund has been worked up as part of the Fund's Business Plan. Performance against this budget will be regularly reviewed.

Administrative Management Performance

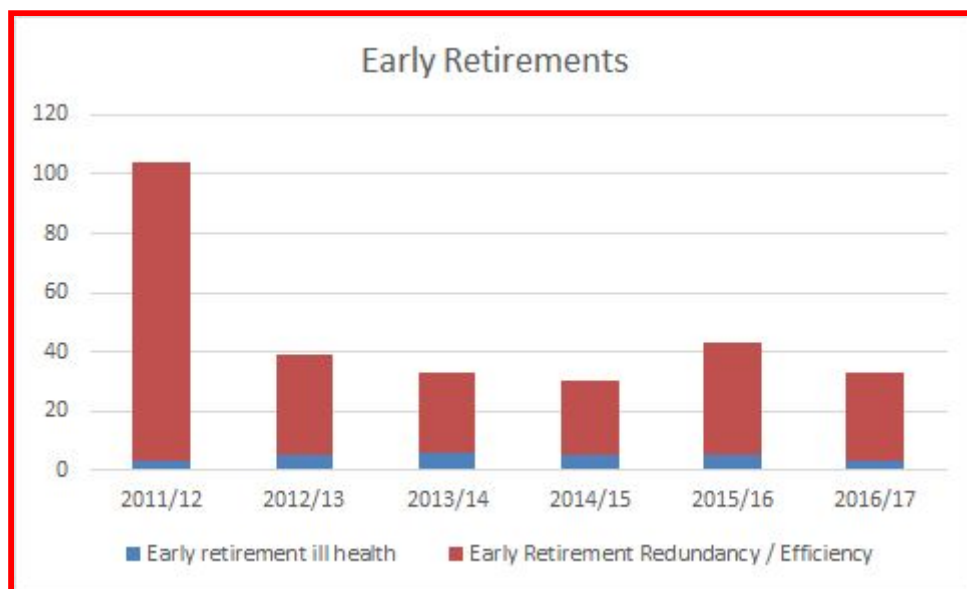
Scheme Membership

The graph below shows that membership of the Fund has increased in 2017/18 to 14,236 members. This is an increase of 7.4% on 2016/17 and an increase of 60% since 2007/08.

Part of this change is due to a rise in the number of contributing members from 4,044 in 2014/15 to 5,556 in 2017/18, an increase of 37.4% which would appear very positive for the Fund. However this is partially due to changes to the way posts are recorded within the new Career Average Revalued Earnings (CARE) scheme and which does not result in additional contributions to the Fund i.e. holders of multiple pensionable posts now have individual records.



The graph below shows the number of pensioners that are receiving enhanced benefits due to either ill health or early retirement on the grounds of redundancy or efficiency.



Complaints

Complaints are referred to the Pensions Administration Manager for consideration under stage 1 of the LGPS Internal Dispute Resolution Procedure (IDRP). During 2017/18, 6 official complaints were received and dealt with through the Procedure. Other enquiries have been received which required investigation and have been dealt with accordingly.

Improvements to Performance Data

During 2017/18 officers utilised the capabilities of the pensions administration system in tracking activity data alongside developing a range of targets giving a better view on the outcomes required within the pensions administration section.

SECTION 3 - INVESTMENT POLICY & PERFORMANCE

Investment Strategy

The Council has externalised the management of the Pension Fund assets and appointed twelve investment managers to manage the investments as follows:

- *Global Equity (Active)* - *Newton Investment Management Ltd, Harding Loevner Funds Plc, and Schroder Investment Management*. The three managers have full discretion to determine individual stock selection and tactical asset allocation within specified control ranges. A performance objective of 2% per annum (gross-of-fees) above the relevant benchmark over a rolling three year period is applied to Newton and Harding Loevner. Schroder's is set at 3% per annum. The Newton mandate was transferred to the London Collective Investment Vehicle (London CIV) in May 2017.
- *Global Equity (Passive)* - Legal & General is a passive investment manager and is required to match the benchmark. The Legal & General mandate is managed via the London CIV and this arrangement is more cost-effective for the Fund.
- *Pooled Multi Asset – Baillie Gifford & Co and Pyrford International*
These investment managers invest in a wide variety of different asset classes. A performance objective of 3% per annum (gross-of-fees) above the relevant benchmark over a rolling three year period is in place for both managers. The Baillie Gifford mandate transferred into the London CIV in February 2016 and Pyrford transferred in June 2016.
- *Property - BlackRock*
The investment manager holds property in pooled funds. Their performance objective is to outperform the relevant benchmark.
- *Real Estate Fund of Funds – Aviva Investors*
This fund is a diversified UK property fund portfolio with the objective of outperforming the benchmark by maximising total return through capital growth and income return.
- *Residential Property – Invesco*. The Pension Committee appointed Invesco in November 2015. The Committee agreed an initial allocation of £15m to this mandate.
- *Fixed Income - M&G*
The investment manager holds bonds in pooled funds. A performance objective of 0.75% (gross-of-fees) above the relevant benchmark over a rolling three year period is applied.
- *Infrastructure – Partners Group (UK) Ltd*

The investment manager invests in global infrastructure directly and through secondary and primary investments in infrastructure partnerships. The manager targets an absolute return of 8% per annum.

- *Financing Fund – M&G UK Companies Financing Fund*

The Financing Fund provides medium term debt to UK companies in the FTSE 350. The manager targets a return of 10% per annum net-of-fees. A management fee of 0.5% is payable on drawn amounts.

The investment strategy is set for the long-term, but is reviewed from time to time to ensure that it remains appropriate to the Fund's liability profile. The Fund has adopted a strategic allocation, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2018, the asset allocation was:

● Global Equities	42%
● UK Equities	13%
● Absolute return	15%
● Bonds	15%
● Infrastructure	5%
● Property	<u>10%</u>
	<u>100%</u>

The significant holding in equities is in pursuit of higher long-term returns rather than part of a liability matching strategy.

Under the Council's current investment strategy, 42% of the total Fund is invested in global equities managed in separate, equal-sized portfolios by Newton, Harding Loevner and Schroders. 13% of the Fund is invested in UK equities by Legal & General and 15% of the Fund is split equally in absolute return pooled vehicles managed by Baillie Gifford and Pyrford. Bond exposure accounts for 20% of the Fund and is managed by M&G. The 10% allocation to Property is split between BlackRock, Aviva and Invesco in the order of 5%, 3% and 2% respectively. There is a long-term strategic target to bonds of 15% and 5% to infrastructure, but the latter will take some time to implement.

The actual allocations as at 31 March 2018 are as follows:

● Global Equities	48%
● UK Equities	12%
● Absolute return	14%
● Bonds	15%
● Property	8%
● Infrastructure	3%
	<u>100%</u>

Investment Performance

Current Investment Benchmarks and Targets

Each 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	Mandate	Tactical Benchmark	Performance Target
Newton	Global equity pooled fund - active	MSCI All Countries World NDR Index	2% above benchmark over rolling 3 year period (gross-of-fees)
Harding Loevner	Global equity pooled fund - active	MSCI All Countries World NDR Index	3% above benchmark over rolling 3 year period (gross-of-fees)
Schroder	Global equity pooled fund - active	MSCI All Countries World NDR Index	3% above benchmark over rolling 3 year period (gross-of-fees)
Legal & General	UK Global equities pooled fund -passive	UK - FT All Share Index	To track the benchmark
Baillie Gifford	Pooled multi-asset	3 Month LIBOR +3%	3% above benchmark over rolling 3 year period (gross-of-fees)
Pyrford	Pooled multi asset	3 Month LIBOR +3%	3% above benchmark over rolling 3 year period (gross-of-fees)
M&G	Bonds - Alpha Fund	3 Month LIBOR +3%	3 Month LIBOR +3 to 5%
M&G	Bonds - Index Linked	FTSE A British Government Over 5 Years Index-Linked	0.75% above benchmark over rolling 3 year period (gross-of-fees)
RREEF / BlackRock	Pooled Property Funds	IPD UK All Pooled Property Funds Index	To outperform the benchmark
Aviva	Property Fund of Funds	IPD UK All Pooled Property Funds Index	To outperform the benchmark

Partners Group	Infrastructure	No tactical benchmark, but target is an absolute return of 8% per annum	No outperformance objective
M&G	UK Companies Financing Fund	No tactical benchmark, but assessed against 7 day LIBID and targets return of 10% pa net-of-fees	No outperformance objective
Invesco	Residential Property	No tactical benchmark, but targets an absolute return of 8% to 10% per annum	Unleveraged return of 8-9% pa

Investments Held at 31 March 2018

The table below shows the value of holdings with each of the fund managers as at 31 March 2018.

Fund Manager	Value at end 31/03/17 £'000	Value at end 31/03/18 £'000
Total Equities	362,508	373,883
Legal & General	71,268	72,252
Newton	96,635	98,101
Harding Loevner	98,105	108,038
Schroder	96,500	95,492
Bonds	93,369	95,344
M&G	93,369	95,344
Pooled Multi Asset	87,245	88,594
Baillie Gifford	44,426	46,654
Pyrford	42,819	41,940
Property	48,552	50,824

BlackRock	21,544	23,072
AVIVA	12,277	12,834
Invesco	14,731	14,918
Alternatives	16,554	16,164
Partners Group	14,915	15,729
M&G – Co's Financing Fund	1,639	435
Market Value of Investments	608,228	624,809
Cash, Debtors /Creditors	9,779	16,644
London CIV	150	150
Total Assets	618,157	641,603

The tables below show the long-term performance of each fund manager by asset class as at 31 March 2018.

Equity Performance

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception*	Fund Return Since Inception*	Variance
	%	%	%	%	%	%
L&G	1.3	1.3	0.0	7.2	7.2	0.0
Newton	2.8	0.9	-1.9	13.3	13.2	-0.1
Harding Loevner	2.4	10.1	7.7	13.2	15.4	2.2
Schroders	2.4	-1.5	-3.9	13.2	12.4	-0.8

* since inception is 2012 for all, apart from L&G which was 2011

During the twelve months ended March 2018, L&G matched the benchmark, Newton underperformed, Harding Loevner outperformed and Schroders underperformed the benchmark. Since inception, L&G matched the benchmark, Newton and Schroders underperformed the benchmark and Harding Loevner outperformed.

Bond Performance

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception*	Fund Return Since Inception*	Variance
M&G	%	%	%	%	%	%
UK Index Linked	0.7	1.1	0.4	10.9	11.4	0.5
Alpha Opportunities Fund	0.4	2.9	2.5	0.9	2.9	2.0

During the twelve months ended March 2018, both M&G funds outperformed the benchmark. Both funds also outperformed since inception.

Pooled Multi-Asset Performance

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception*	Fund Return Since Inception *	Variance
	%	%	%	%	%	%
Baillie Gifford	3.4	4.7	1.3	3.6	5.5	1.9
Pyrford	3.4	-2.3	-5.7	3.6	3.4	-0.2

* since inception is 2012

During the twelve months ended 31 March 2018, Baillie Gifford outperformed the benchmark and Pyrford underperformed the benchmark. Baillie Gifford outperformed the benchmark since inception and Pyrford underperformed since inception.

Property Performance

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception *	Fund Return Since Inception *	Variance
	%	%	%	%	%	%
BlackRock	10.1	9.8	-0.3	4.6	1.6	-3.0
Aviva	10.1	7.4	-2.7	8.3	7.7	-0.6

* Since inception for RREEF/BlackRock is 2005 and for Aviva 2011

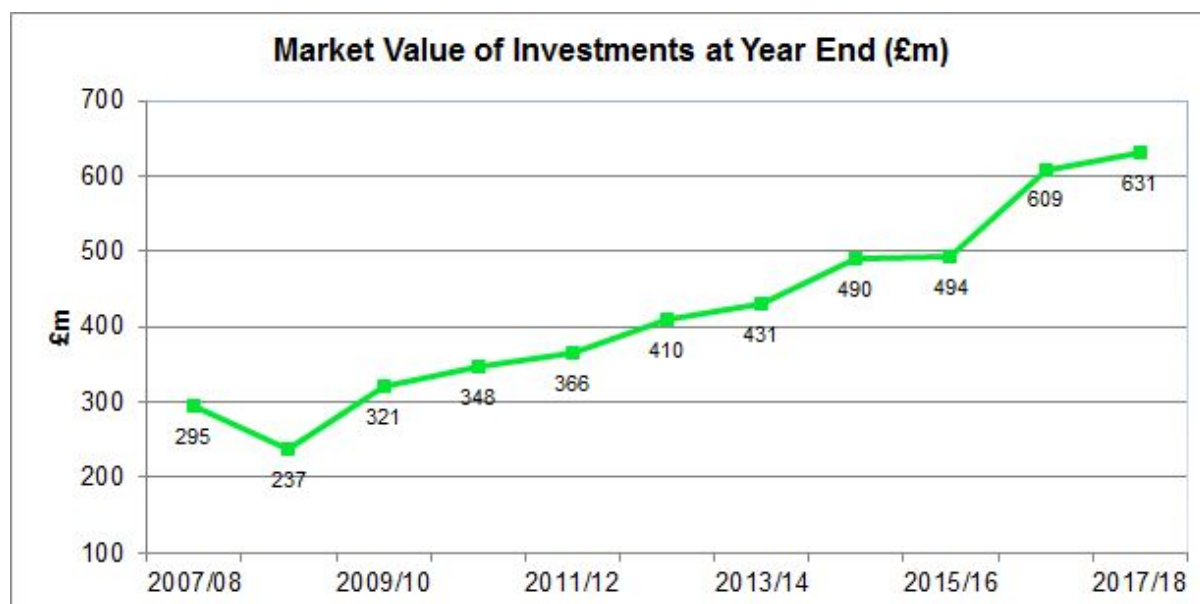
During the twelve months ending 31 March 2018, both Blackrock and Aviva underperformed the benchmark and both managers also underperformed the benchmark since inception.

Alternatives Performance

Manager	Fund Return 1 Year	Fund Return Since Inception
	%	%
Partners Group	18.9	10.6
M&G	4.0	4.5

Partners Group and M&G are not measured against a benchmark due to the pattern of investment with the managers. The drawdown of the commitment to Partners Group Direct and Global 2015 funds have been taking place for less than one year.

The market value of the total assets held by the fund managers over the last 10 years is shown below (including new money invested but excluding cash held by the Council).



Note: Other assets held at the end of 2017/18 are cash in the bank (£15.6m) and Net (debtors) / creditors (£1.1m) giving a total net assets figure of £642m

Fund History

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

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

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

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

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

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

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

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

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

SECTION 4 - SCHEME ADMINISTRATION

Pensions Administration

Committed to providing an efficient, cost effective and approachable service to all Fund employers and our members.

Sutton and Kingston formed a Shared Service with effect from 1 April 2016 for the administration of each respective Council's Local Government Pension Scheme (LGPS). The Shared Service administers the LGPS on behalf of scheme employers, including Sutton Housing Partnership, Kingston University, London Grid for Learning and admitted bodies such as non-teaching staff in schools and academies and contractors. The Shared Service now administer the LGPS on behalf of more than 100 employers across both Sutton and Kingston.

Service provided by the Shared Pensions Administration team include;

- Maintenance of member pension records with data from scheme employers and their payroll providers including; starters, leavers and other changes of circumstance.
- Provision of retirement estimates and calculation of benefits, life cover and dependants benefits for current and former staff or their dependants.
- Redundancy and early retirement benefit forecasting (for employers and members) and where necessary, payment of entitlements.
- Ensuring changes in the Regulations affecting benefit (or potential benefit) entitlements are correctly applied and Scheme members are kept informed of their options.
- Arranging illustrations for transfer of members' previous pension benefits into the Borough scheme and where appropriate affecting the transfer, including bulk transfers.
- Illustrations of the benefits of paying additional contributions – to purchase additional LGPS pension or for payment into the AVC arrangement with Clerical Medical to provide extra money purchase benefits.
- Providing details of preserved entitlements for early leavers and transfer illustrations and payment as necessary
- Calculation and recovery of employer costs associated with capital impact on provisions.
- Complete necessary exercises to enable the Fund actuary to complete actuarial valuations following new admission and scheduled bodies and the data changes required into the administration system.
- Complete CARE and deferred member benefit increases and produce associate benefit statements for all relevant members.
- Manage pension payroll for each borough including applying the annual pension increases.

Main Work Streams Impacting Pension Administration in 2017/18

LGPS Regulations 2014

Following the introduction of the revised Career Average Revalued Earnings (CARE) scheme from 1 April 2014, the end of year process as at 31 March 2018 was finalised. The process now requires all employers to provide extra data including both final pay and actual pensionable pay for the scheme year. It is critical that the employer data is correct as the CARE pension will be established using the actual pensionable pay provided each scheme year.

The annual revaluation of employee contribution bands being based on actual pensionable pay (previously based on notional full time annual rate adjusted by term time weeks) was implemented by the borough payroll provider and other off payroll employers in April 2018. Employee contributions are reassessed each month based on the actual (contractual) pay received in that period.

The Staff Pensions web page includes a link to the national “LGPS 2014” website www.lgps2014.org

Redundancy & Early Retirement

There is continuing demand for costing of redundancies from both Councils and other scheme employers. In addition, there is increasing demand for actuarial assessment for staff being TUPE transferred into shared services or other commissioning arrangements.

Academy Schools

The total number of Academies was 32 at 31 March 2018. There were 7 new conversions to academy status whereby initial actuarial assessments were undertaken to establish their starting position and employer contribution rate. Additional schools are planning to convert in 2018/19.

New Transferee Admission Agreements

A number of provisional assessments have been arranged for potentially new Admission Body employers into the Fund.

Employer Self-Serve

A new self-service based module for scheme employers has been rolled out to the majority of off payroll employers. It allows them to view their membership data, make certain changes and enable them to run retirement estimates. Self-service arrangements for active members has also now been rolled out to all active members, allowing staff to update their personal details, view their membership details e.g. earnings and contributions, update their nomination details and view their annual benefit statements.

Key Activities planned in 2018/19

In addition to the day-to-day running of the pension administration team, the key activities planned for 2018/19 include;

- Engagement with external payroll providers via a series of briefing sessions to improve communication and understanding of the pension administration requirements
- Move to all external payroll providers providing starter and leaver information via data interfaces to maximise administration efficiencies
- Increase/promote usage of Member Self Serve (Pensions On Line) by active and deferred members, so that all personal detail changes including updating nomination details are completed via the site.
- Increase usage of Employer Self-Serve amongst scheme employers.

SECTION 5 - STATEMENT OF THE ACTUARY 2017/18

The most recent full actuarial valuation of the Pension Fund was carried out by Barnett Waddingham as at 31 March 2016. A link to this document is provided here:

[Fund Actuarial Valuation 2016](#)

SECTION 6 - PENSION FUND STATEMENT OF ACCOUNTS

Sutton Pension Fund Accounts for the Year Ended 31 March 2018			
Fund Account			
2016/17 £'000		Notes	2017/18 £'000
Contributions and Benefits			
Contributions Receivable:			
24,608	From Employers	2	24,849
5,661	From Employees or Scheme Members	2	5,940
3,847	Transfers In	4	3,570
34,116	Sub-Total Income		34,359
Benefits Payable:			
20,435	Pensions		21,240
3,464	Lump Sum Retirement Grants		4,115
631	Lump Sum Death Benefits		435
24,530	Sub-Total Benefits Payable	3	25,790
Payments to and on account of Leavers:			
74	Refund of Contributions		85
1,914	Transfers Out	4	6,250
3,263	Management expenses	6f	6,115
29,781	Sub-Total Expenses		38,240
4,335	Net Addition from Dealings with Scheme Members		(3,881)
Return on Investments			
4,435	Investment Income	6d	9,782
(15)	Taxes on Income	6e	141
102,281	Increase in Market Value of Investments		17,404
106,701	Net Return on Investments		27,327
111,036	Net Increase in Fund During Year		23,446
507,121	Opening Net Assets of the Scheme		618,157
618,157	Total Net Assets at 31 March		641,603
Net Assets Statement			
Investment Assets:			
391,235	Equities		404,028
36,767	Fixed Interest Securities - Public Sector		39,364
56,729	- Other		55,039
49,080	Index Linked Securities - Public Sector		49,518
50,113	Property		54,927
14,915	Infrastructure		15,729
7,900	Other		5,919
1,639	Loans to businesses	6b	435
608,378	Sub-Total Securities	6b	624,959
872	Cash		5,497
127	Debtors		94
609,377	Total Investment Assets	6c	630,550
Current Assets			
7,705	Cash in Hand		10,053
4,605	Debtors		8,582
(3,530)	Current Liabilities		(7,582)
618,157	Total Net Assets at 31 March		641,603

1. Description of Fund

a) General

The London Borough of Sutton Pension Fund ('the Fund') is part of the Local Government Pension Scheme and is administered by the London Borough of Sutton. The Council is the reporting entity for the Fund.

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).
- The Local Government Pension Scheme (Amendment) Regulations 2018.

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of London Borough of Sutton and a range of other scheduled and admitted bodies within the Borough. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

b) Membership

Organisations, in addition to the Council, with active members participating in the Fund during 2017/18 are as follows:

Scheduled Bodies:

- Carshalton College (left the Fund on 31 July 2017)
- Sutton Housing Partnership
- Academy Schools (x 27)

Admitted Bodies:

- Citizens Advice Bureaux - Sutton Borough
- ThamesReach
- Sports and Leisure Management Ltd
- Community Options (Heritage Care)
- Compas Catering (Overton Grange Academy)
- Compas Catering (St Philomena's)

- Eldercare
- Mitie (facilities and security management)
- Indigo (formerly Vinci Park)
- Nviro (Wallington High School for Girls Academy)
- Caterlink
- Orchard Hill College
- Orchard Childcare
- Encompass
- Cognus (formerly Sutton Education Service)

As at 31 March, membership of the fund comprised

31 March 2017		31 March 2018
No.		No.
5,326	Employees & Council Members	5,556
3,634	Pensioners and dependants	3,926
4,300	Former Employees - deferred benefits	4,754
13,260	Total	14,236

Employees include additional records for each pensionable post held by a member of the Scheme and undecided leavers yet to be processed.

2. Contributions to the Fund

The Scheme's current members make contributions to the Fund by deductions from earnings. From 1 April 2014 with the introduction of the LGPS 2014 Career Average Revalued Earnings (CARE) scheme, revised contribution banding rates of between 5.5% and 12.5% applied. These are assessed on a monthly basis based on the members' (annualised) actual pensionable pay in each pay period.

Following the 2016 actuarial valuation, the Council's stabilised contribution rate for the Sutton Pool was set at 17.2% future service rate for three years from 2017/18 to 2019/20 and a deficit contribution equal to £5.3m for 2017/18; £5.7m for 2018/19 and £6.1m for 2019/20).

Scheduled and admitted bodies were separately assessed and three year employer contribution rates were set for 2017/18, 2018/19 and 2019/20.

Contributions to the Pension Fund were as follows:

2016/17		2017/18
£'000		£'000
	Employers' Contributions	
15,005	London Borough of Sutton including schools	15,904
4,523	Academy schools	5,023
1,006	London Borough of Sutton - recovery of early retirement costs	530
795	Deficit Funding Contributions (SHP & Carshalton College)	382
	Scheduled Bodies	
235	- Carshalton College	148
787	- Sutton Housing Partnership	699
2,257	Admitted Bodies	2,163
24,608		24,849
	From Employees or Scheme Members	
3,656	London Borough of Sutton including schools	3,976
1,097	Academy schools	1,179
	Scheduled Bodies	
76	- Carshalton College	50
279	- Sutton Housing Partnership	246
553	Admitted Bodies	489
5,661		5,940

3. Analysis of Benefits Payable

2016/17		2017/18
£'000		£'000
22,437	London Borough of Sutton including schools	22,795
527	London Borough of Sutton - Academy schools	997
	Scheduled Bodies	
425	- Carshalton College	384
815	- Sutton Housing Partnership	693
326	Admitted Bodies	921
24,530	Total Benefits Payable	25,790

4. Transfers

This represents the transfer of pension liabilities to and from the London Borough of Sutton's Pension Fund.

	2016/17		2017/18	
	Transfers Out	Transfers In	Transfers Out	Transfers In
	£'000	£'000	£'000	£'000
Bulk transfers	0	0	3,370	0
Individual transfers	1,914	3,847	2,880	3,570
	<u>1,914</u>	<u>3,847</u>	<u>6,250</u>	<u>3,570</u>

The above 2017/18 bulk transfers were in respect of the transfer of London Borough of Sutton legal staff to London Borough of Merton (£2.988m) and London Borough of Sutton anti-fraud staff to The Department of Works and Pensions (£0.382m).

5. Accounting Policies

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits as at 31 March 2018. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2018. The actuarial present value of promised retirement benefits, valued on an International Accounting Standards (IAS) basis, is disclosed in Note 9 of these accounts.

The financial statements have been prepared on a going concern basis and in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. In particular:

a) Fair Value - Basis of Valuation

The basis of each class of investment asset is set out below. All assets have been valued using fair value techniques which represent the best price available at 31/03/18.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Recognised at market value	Not Required	Not Required
Market quoted investments - pooled equity and bond funds	Level 1	Published bid market price on final day of the accounting period	Not Required	Not Required
Pooled investments - equity and bond funds	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 investments - UK and overseas property funds	Level 3	Closing bid price where bid price published	NAV based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between reporting date and 31/03/18
Pooled investments - infrastructure fund and loans to companies fund	Level 3	Discounted cashflow method	Projected cashflow information based on agreed investment terms and expected growth rates	Valuations could be affected by material events occurring between reporting date and 31/03/18

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value on decrease
		£'000	£'000	£'000
Pooled investments - UK & overseas property funds	14.3%	50,824	58,092	43,556
Pooled investments - infrastructure fund	15.8%	15,729	18,214	13,244
Pooled investments - UK companies financing fund	10.2%	435	479	391
Investment of share capital in the London CIV	16.8%	150	175	125
Total		67,138	76,960	57,316

b) Non investment assets/liabilities

The accounts include some non-investment debtors and creditors. These are measured at amortised cost.

c) Investment income

i) Interest Income

Interest income is recognised in the accounts on an accruals basis and is based on an average rate of interest applicable to pooled cash that the Fund has invested with money market funds and call accounts, alongside the Council's general cash investments and the addition of interest earned in a separate Pension Fund Bank Account. Interest is calculated using the effective interest rate of the financial instruments that the cash is invested with.

ii) Dividend Income

Dividend income is recognised by the equity fund managers when the shares are quoted ex-dividend. At this point the income is accrued by the equity fund managers. The income is actually received on the official pay date of the dividend and at this time it is added into the daily Net Asset Value.

iii) Distributions from pooled funds

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

iv) Movement in net market value of investments

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

d) Investment management expenses

All investment management fees are accounted for on an accruals basis.

Fund manager, custodian and investment consultant fees are all agreed at the time of contractual arrangements. All fund manager fees are based on net asset values of the assets held, which can increase or reduce as the values change.

Investment consultant fees are included in management expenses.

Transaction costs are deducted at total fund level, therefore in order to reflect the value of holdings before the deduction of these costs, the Net Asset Value of holdings has been grossed up by the value of the transaction costs.

e) The transfer of liabilities arise when staff move to and from the Scheme.

Transfer values are accounted for on a cash basis as the amount payable or receivable by the Scheme is not determined until payment is actually made and accepted by the recipient.

f) Fund manager assets denominated in non-sterling currencies are translated to Sterling by the asset custodian using its foreign exchange rates for the balance sheet dates. For reporting purposes the custodian revalues all foreign currency holdings back to Sterling on a daily basis using the WM/Reuters 4 p.m. rate. Where applicable, foreign exchange transactions are executed by the investment manager using their own execution policy or under instruction from their clients. During the year, there were 8 foreign exchange transactions from Sterling to Euros executed within cash accounts for Partners Group and M&G UK Companies Financing Fund.

g) Assumptions made about the future and other major sources of uncertainty:

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay 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 Fund with expert advice about these assumptions.	The effects on the net pension fund liability for the London Borough of Sutton Pension Fund can be measured. For example a 0.1% increase in the discount rate assumption would result in an approximate reduction of £16m in the Council's pension liability; a one year increase in member life expectancy would increase the liability by approximately £34m and a 0.1% increase in the salary increase rate would increase the liability by approximately £1m.
Unquoted investments	Some investments, such as pooled infrastructure, pooled property and company financing funds are valued using bases which are not quoted and therefore there is a degree of estimation involved in the valuation.	The total of investments which are valued on an unquoted basis is £67.1m. There is a risk that these investments may be under or over-stated in the accounts.

6. Fund Management

a) Allocation of Assets

The Fund is mandated to eleven different fund managers;

Pooled Global & UK Equity Funds;

Legal & General (L&G)

Newton Investment Management (Newton)

Harding Loevner

Schroder

Pooled Absolute Return Funds;

Baillie Gifford

Bonds;

M&G

UK Pooled Property Funds;

Aviva Investors

BlackRock

Invesco

Alternative Funds;

M&G UK Companies Financing Fund

Partners Group (infrastructure)

A strategic target benchmark allocation of 42% of the total fund value is to be invested in global equities managed in separate, equal sized portfolios by Newton, Harding Loevner and Schroders. 13% of the fund is to be invested in UK equities by L&G and 15% of the Fund is to be split equally in absolute return pooled vehicles managed by Baillie Gifford

and Pyrford. 20% of the fund is targeted in bonds by M&G, however there is a long term strategic target to bonds of 15% and 5% to infrastructure with Partners Group. 10% of the fund is to be invested in property, split between BlackRock, AVIVA and Invesco.

The Council is also invested in M&G UK Companies Financing Fund.

Fees negotiated with fund managers for their services are on a sliding scale related to the overall value of funds managed, and may include a performance element.

The market value of assets held by the fund managers at 31 March 2018 totalled £624.959 million split as follows:

	£m	% of Investment Assets
M & G Bonds	95.344	15.3%
Newton	98.101	15.7%
Schroders	95.492	15.3%
Harding Loevner	108.038	17.3%
Legal & General	72.252	11.6%
Baillie Gifford	46.654	7.4%
Pyrford	41.940	6.7%
Blackrock	23.072	3.7%
Aviva	12.834	2.0%
Invesco	14.918	2.4%
Partners Group	15.729	2.5%
M&G Financing Fund	0.435	0.1%
London Collective Investment Vehicle	0.150	0.0%
Total	624.959	100.0%

Fund's assets are held in unitised form. Excluding equities, the largest unitised holding is M&G's Alpha Opportunities Fund, representing 7.7% of net assets. There is no other individual holding of more than 5%.

The market value of assets held by the fund managers at 31 March 2017 totalled £608.378 million split as follows:

	£m	% of Investment Assets
M & G Bonds	93.369	15.3%
Newton	96.635	15.9%
Schroders	96.500	15.9%
Harding Loevner	98.105	16.1%
Legal & General	71.268	11.7%
Baillie Gifford	44.426	7.3%
Pyrford	42.819	7.0%
Blackrock	21.544	3.5%
Aviva	12.277	2.0%
Invesco	14.731	2.5%
Partners Group	14.915	2.5%
M&G Financing Fund	1.639	0.3%
London Collective Investment Vehicle	0.150	0.0%
Total	608.378	100.0%

Excluding equities, the largest unitised holding was M&G's Alpha Opportunities Fund, representing 7.7% of net assets. There were no other individual holding of more than 5%.

b) Analysis of Investments

31 March 2017		31 March 2018
£m		£m
	Equities:	
102.0	UK Quoted	104.6
289.2	Overseas Quoted	299.4
	Fixed Interest Securities:	
	- UK	
27.3	Public sector quoted	24.5
27.2	Corporate quoted	28.2
	- Overseas	
9.5	Public sector quoted	14.9
29.5	Corporate quoted	26.8
	Index linked securities:	
45.3	UK Public sector quoted	45.9
3.8	Overseas Public sector quoted	3.7
	Property:	
	- UK	
37.9	Property fund quoted:	39.6
	- Overseas	
12.3	Property Unit Trust unquoted	15.3
	Loans to business:	
1.6	Unit Trust unquoted	0.4
	Other:	
7.7	Quoted	5.8
15.1	Unquoted - Private Equity / Infrastructure	15.9
608.4		625.0
	Pooled funds - additional analysis:	
	- UK	
	Equities:	
79.0	Unit Trusts	83.1
23.0	Other pooled equities	21.5
	Fixed Interest Securities:	
54.5	Fixed income bonds	52.7
	Index Linked Securities:	
45.3	Indexed linked bond	45.9
	Property:	
36.3	Unit Trust	38.0
1.6	Other	4.1
	Loans to business:	
1.6	Unit Trust	0.4
	- Overseas	
	Equities:	
88.8	Unit Trust	84.7
200.5	Other pooled equities	214.7
	Fixed Interest Securities:	
42.7	Other	45.4
	Property:	
12.3	Unit Trust	12.8
	Other:	
22.8	Other pooled investments	21.7
608.4		625.0

The Other category includes infrastructure, absolute return and insurance linked securities.

c) Investment Movement Summary

Investment Movement Summary 2017/18	Value at 1 April 2017	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2018
	£m	£m	£m	£m	£m
Equities	387.1	6.8	(7.7)	12.9	399.1
Bonds	145.0	4.0	(0.7)	(1.0)	147.3
Property	50.0	0.2	(0.8)	3.1	52.5
	582.1	11.0	(9.2)	15.0	598.9
Loans to:					
Businesses	1.6	0.0	(1.2)	0.0	0.4
Other	24.7	6.1	(7.6)	2.5	25.7
Total Investment Assets	608.4	17.1	(18.0)	17.5	625.0
Other investment balances:					
Cash & Cash Equivalents	0.9				5.5
Debtors	0.1				0.1
Total Assets	609.4				630.6

Comparative Movements in 2016/17	Value at 1 April 2016	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2017
	£m	£m	£m	£m	£m
Equities	306.4	13.0	(17.3)	85.0	387.1
Bonds	129.1	28.1	(27.3)	15.1	145.0
Property	35.0	15.0	(0.1)	0.1	50.0
	470.5	56.1	(44.7)	100.2	582.1
Loans to:					
Businesses	3.7	0.0	(2.1)	0.0	1.6
Other	19.2	3.7	(0.3)	2.1	24.7
Total Investment Assets	493.4	59.8	(47.1)	102.3	608.4
Other investment balances:					
Cash & Cash Equivalents	1.3				0.9
Debtors	0.1				0.1
Total Assets	494.8				609.4

d) Investment Income (Gross)

31 March 2017		31 March 2018
£'000		£'000
459	Equities	2,752
1,366	Bonds	4,038
1,415	Property	1,498
3,240		8,288
150	Loans to Business	37
1,045	Other	1,457
4,435	Total Investment Income	9,782

e) Taxes on Income

31 March 2017		31 March 2018
£'000		£'000
15	UK Income Tax - Property	(141)
15		(141)

f) Management Expenses

31 March 2017		31 March 2018
£'000		£'000
384	Administrative costs	500
2,773	Investment management expenses *	5,487
106	Oversight and governance costs	128
3,263		6,115

This analysis of the costs of managing the Pension Fund during the year has been prepared in accordance with CIPFA guidance.

* Further analysis of investment management expenses for 2017/18 is provided below:

	31 March 2018
	£'000
Transaction costs	1,335
Management fees	3,688
Performance fees	321
Custody fees	143
	5,487

7. Non-adjusting Post Balance Sheet Event

It's possible that information may come to light after the balance sheet date which would cast doubt on the valuation of particular assets or classes of assets at the balance sheet date.

8. Actuarial Position

Pension Fund regulations require actuarial valuations to be prepared every three years. Barnett Waddingham, the Actuary carried out a valuation of the Fund as at 31 March 2016. The valuation showed that Fund assets, which at 31 March 2016 were valued at £503 million, were sufficient to meet 80% of the liabilities (i.e. the present value of promised retirement benefits accrued up to that date).

For 2017/18 to 2019/20 the stabilised contributions paid are 17.2% of employees' earnings plus deficit contributions of £5,376,000 in 2017/18, £5,752,000 in 2018/19 and £6,154,000 in 2019/20. The stabilised approach, as assessed by the Council's actuary, is structured to make good the deficit over a 19 year period.

Actuarial Assumptions

In the actuarial valuation, the Actuary has used assumptions about the factors affecting the Fund's finances in the future. Broadly, these assumptions fall into two categories - demographic and financial.

Demographic assumptions typically forecast when benefits will come into payment and what form these will take. For example, when members will retire and how long they will then survive and whether a dependant's pension will be paid.

Financial assumptions typically try to anticipate the size of these benefits. For example how large members' salaries (final and career average) will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help the Actuary to estimate how all these benefits will cost the

Details of the Actuary's recommended assumptions are set out below.

Financial Assumptions

A summary of the main financial assumptions adopted for the 2016 valuation of members' benefits is shown below.

Financial assumptions	2016
Discount rate	5.2%
Salary increases*	3.9%
Price inflation (CPI)/Pension increases	2.4%

* Plus an allowance for promotional pay increases

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. The Actuary has adopted assumptions which give the following sample average future life expectancies for members:

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Males	Females	Males	Females
2016 valuation	26.5 years	28.2 years	24.3 years	25.9 years

* based on active and deferred members aged 45 at the valuation date

9. Actuarial Present Value of Promised Retirement Benefits (IAS 26)

IAS 26 requires the 'actuarial present value of promised retirement benefits' to be disclosed. For this purpose and in accordance with the Code of Practice, the most recent valuation, based on IAS 19, was used rather than the assumptions and methodology used for funding purposes.

The Actuary has calculated the actuarial present value of promised retirement benefits to be £1,066 million as at 31 March 2018 (£1,073 million as at 31 March 2017). The Council is required to provide a description of the significant actuarial assumptions made and the methods used in the calculation. This is detailed below.

a) Method

To assess the value of the Fund's liabilities at 31 March 2018 the Actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

b) Assumptions

The assumptions used are those adopted for the Fund's IAS19 report as required by the Code. These are given below. The Actuary estimates that the impact of the change of financial assumptions to those of 31 March 2017 is to reduce the actuarial present value by £52 million and has made no changes to the actuarial demographic assumptions.

(i) Financial Assumptions

The Actuary's recommended financial assumptions are summarised below:

Year ended	31 March 2017 % p.a.	31 March 2018 % p.a.
Inflation/Pension Increase Rate	2.7%	2.3%
Salary Increase Rate	4.2%	3.8%
Discount Rate	2.7%	2.6%

(ii) Longevity Assumptions

The life expectancy assumptions are consistent with those used for the most recent Fund valuation. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 80% for males and 85% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5%pa. The assumed life expectations from age 65 are:

	Males	Females
Current Pensioners	24.5 years	26.1 years
Future Pensioners*	26.8 years	28.4 years

* Future pensioners are assumed to be currently aged 45

(iii) Commutation Assumption

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- the proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the London Borough of Sutton, administering authority to the

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

10. Additional Voluntary Contributions

In accordance with regulation 4 (1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No 946), additional voluntary contributions are not included in the Pension Fund Accounts. AVC's are managed independently by a specialist AVC fund provider, and are invested separately from the Fund in the form of personal accounts securing additional benefits on a money purchase basis, for those members electing to pay such contributions. Members participating in this arrangement each received an annual statement made up to 31 May 2018 confirming the amounts held to their account and the movements in the year. Note this is an externally provided scheme and valuations are given at the scheme date which is 31 May 2018 confirming the amounts held to their accounts and the movements in the year. In the year to May 2018 AVC's paid by members amounted to £122k. At 31 May 2018 the total value of AVC's was £819k

11. Disclosure of Related Party Transactions

Sutton Council is a designated administering authority for the Local Government Pension Scheme and is responsible for the administration of the Scheme and for London Borough of Sutton employees (and certain admitted bodies), excluding teachers who have their own specific scheme. Sutton Council discharges this responsibility through a formal decision making committee known as the Pension Committee. Decisions can also be taken by the Strategic Director - Resources under delegated authority following Pension Committee meetings.

The Scheme is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence dealings with the Scheme and its assets. Disclosure of these transactions allows readers to assess the extent to which the reported financial position and results may have been affected by the existence of and dealings with related parties.

To comply with this requirement the London Borough of Sutton's Strategic Director - Resources has issued a declaration form with guidance notes to members and senior officers. There have been no declarations made which are material to the Pension Fund accounts.

The Pension Fund had an average balance of £9.1 million of surplus cash deposited with the Council during 2017/18. The Council charged the Fund £0.303 million for expenses incurred in administering the Fund. The Council is also the single largest employer of members of the Fund and contributed £21.457 million to the Fund (£20.534 million in 2016/17).

Key Management Personnel

The key management personnel of the Fund are the Strategic Director - Resources, the Head of Investment, Risk and Commercial Finance and the Pensions Administration Manager.

Total remuneration payable to key management personnel is shown below:

31 March 2017		31 March 2018
£'000		£'000
244	Short-term benefits	226
36	Post-employment benefits	41
0	Termination Benefits	41
280	Total	308

12. Financial Instruments

a) Classification of Financial Instruments

Accounting policies require different classes of financial instruments to be analysed into various defined categories. The following table analyses the carrying amounts of financial assets and liabilities.

	Designated at fair value through profit and loss		Loans and receivables		Financial liabilities at amortised cost	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Financial Assets						
Fixed Interest Securities	93,496	94,402	0	0	0	0
Index Linked Securities	49,080	49,518	0	0	0	0
Equities	391,235	404,028	0	0	0	0
Pooled property investments	50,113	54,927	0	0	0	0
Private Equity/Infrastructure	14,915	15,729	0	0	0	0
Other*	7,900	5,920	0	0	0	0
Investment Cash	0	0	872	5,497	0	0
Other investment balances	1,639	435	0	0	0	0
Investment Debtors	0	0	127	94	0	0
	608,378	624,959	999	5,591	0	0
Cash in hand	0	0	7,705	10,053	0	0
Debtors	0	0	4,605	8,582	0	0
	608,378	624,959	13,309	24,226	0	0
Financial Liabilities						
Creditors	0	0	0	0	(3,530)	(7,582)
	0	0	0	0	(3,530)	(7,582)
	608,378	624,959	13,309	24,226	(3,530)	(7,582)

Current assets, which are separate to investment assets have been additionally disclosed.

Other* includes absolute return, commodities, insurance linked securities and investment in the London Collective Investment Vehicle.

b) Net Gains and Losses on Financial Instruments

	2016/17 £'000	2017/18 £'000
Financial Assets		
Fair value through profit and loss	102,247	17,487
Loans and receivables	34	(83)
Financial liabilities measured at amortised cost	0	0
Financial liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Total	102,281	17,404

c) Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and liabilities by class of instrument compared with their fair values.

	Carrying Value		Fair Value	
	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000
Financial Assets				
Fair value through profit and loss	608,378	624,959	608,378	624,959
Loans and receivables	999	5,591	999	5,591
Total financial assets	609,377	630,550	609,377	630,550
Financial Liabilities				
Fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	0	0	0	0
Total financial liabilities	0	0	0	0

The following table summarises the carrying values of the non-investment financial assets and liabilities by class of instrument compared with their fair values.

	Carrying Value		Fair Value	
	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000
Non-investment Financial Assets				
Cash in hand	7,705	10,053	7,705	10,053
Debtors	4,605	8,582	4,605	8,582
Total non-investment financial assets	12,310	18,635	12,310	18,635
Non-investment Financial Liabilities				
Creditors	(3,530)	(7,582)	(3,530)	(7,582)
Total non-investment financial liabilities	(3,530)	(7,582)	(3,530)	(7,582)

d) Valuation of Financial Instruments Carried at Fair Value

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.

Level 2

Quoted prices are not available and valuation 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.

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial Assets				
Equities	120,833	283,195	0	404,028
Securities	29,143	114,778	0	143,921
Property	0	4,103	50,824	54,927
Private Equity/Infrastructure	0	0	15,729	15,729
Loans to businesses	0	0	435	435
Other*	0	5,769	150	5,919
Financial assets at fair value through profit and loss	149,976	407,845	67,138	624,959

Other* includes absolute return, commodities and insurance linked securities and investment in the London Collective Investment Vehicle.

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial Assets				
Equities	111,753	279,482	0	391,235
Securities	29,172	113,404	0	142,576
Property	0	1,561	48,552	50,113
Private Equity/Infrastructure	0	0	14,915	14,915
Loans to businesses	0	0	1,639	1,639
Other*	0	7,750	150	7,900
Financial assets at fair value through profit and loss	140,925	402,197	65,256	608,378

Other* includes absolute return, commodities and insurance linked securities and investment in the London Collective Investment Vehicle.

Reconciliation of Fair Value Measurements Within Level 3

Period 2017/18							
	Market value 1 April 2017	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property	48,552	0	0	106	(741)	2,907	50,824
Private Equity / Infrastructure	14,915	0	0	6,024	(7,537)	2,327	15,729
Loans to businesses	1,639	0	0	0	(1,209)	5	435
London Collective Investment Vehicle	150	0	0	0	0	0	150
Total	65,256	0	0	6,130	(9,487)	5,239	67,138

Period 2016/17							
	Market value 1 April 2016	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property	12,255	21,534	0	15,000	(86)	(151)	48,552
Private Equity / Infrastructure	10,108	0	0	3,690	(230)	1,347	14,915
Loans to businesses	3,778	0	0	0	(2,183)	44	1,639
London Collective Investment Vehicle	150	0	0	0	0	0	150
Total	26,291	21,534	0	18,690	(2,499)	1,240	65,256

Transfers into level 3 are represented by the transfer of BlackRock from level 2 to level 3. This change was provided by BlackRock following a periodic review of their classifications.

13. Nature and Extent of Risks Arising from Financial Instruments

The Fund's activities expose it to certain financial risks, which the Council seeks to minimise as far as possible. The risk management arrangements for the Fund are addressed by its Funding Strategy Statement, which contains a risk management register. This shows the alignment between key risks, including financial and investment risks and control arrangements. The Fund's primary long term risk is that its assets will fall short of its liabilities. In order to minimise this risk the Fund diversifies its investments to reduce its exposure to market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. These areas are addressed in turn below.

a) Market Risk

This is the risk that financial loss could arise as a result of changes in such measures as interest rates and stock market movements, due to fluctuations in share prices, exchange rates and credit spreads.

Price Risk

The Fund is also exposed to an element of risk in relation to movements in the price of its investments, which may go up and down and result in a loss against the amount invested. To mitigate against this, the Fund has a diverse portfolio with different asset classes, countries and market sectors. The portfolio is also managed by a range of different managers with varying management styles. Any fall in prices should therefore only affect part of the Fund and not the Fund as a whole.

Potential price changes have been determined based on the observed historical volatility of asset class returns. More risky assets, such as equities display greater potential volatility than bonds. Potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. This has been applied to the year end asset mix for 2017/18 and 2016/17 as shown in the tables overleaf. The estimated volatility of asset classes, such as global equities includes the impact of unhedged currency movements.

Asset Type	Value as at 31/03/2018 £000	% Change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	5,497	0.5	5,524	5,470
Investment portfolio assets:				
UK bonds	52,676	9.5	57,680	47,672
Overseas bonds	45,378	10.2	50,007	40,749
UK equities	104,649	16.8	122,230	87,068
Overseas equities	299,380	17.9	352,969	245,791
Index linked gilts	45,866	7.2	49,168	42,564
Property	54,927	14.3	62,782	47,072
Private equity/infrastructure	15,879	15.8	18,388	13,370
Absolute return	5,769	11.8	6,450	5,088
Corporate bonds	435	10.2	479	391
Other - Debtors	94	0.5	94	94
Total assets available to pay benefits	630,550		725,771	535,329

Asset Type	Value as at 31/03/2017 £000	% Change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	872	0.0	872	872
Investment portfolio assets:				
UK bonds	54,526	9.5	59,706	49,346
Overseas bonds	42,742	10.1	47,059	38,425
UK equities	101,994	15.8	118,109	85,879
Overseas equities	289,241	18.4	342,461	236,021
Index linked gilts	45,308	7.1	48,525	42,091
Property	50,113	14.2	57,229	42,997
Private equity/infrastructure	15,065	15.9	17,460	12,670
Absolute return	7,750	10.2	8,541	6,960
Corporate bonds	1,639	10.1	1,805	1,473
Other - Debtors	127	0.0	127	127
Total assets available to pay benefits	609,377		701,894	516,861

Other financial instruments, such as cash in hand are exposed to market risk and this is addressed under the Interest Rate Risk section within this note.

Currency Risk

The Pension Fund holds financial assets or liabilities denominated in foreign currencies. It is therefore exposed to an element of risk in relation to fluctuation of foreign exchange rates. This risk is mitigated by holding investments in a range of foreign currencies.

Following analysis of historical data in consultation with the fund investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 10% for 2017/18 and 10% for 2016/17. This is the one year expected standard deviation for an individual currency. This analysis assumes no diversification with other assets and in particular that interest rates remain constant.

A 10% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Value as at	Change to net assets	
	31 March 2018	available to pay benefits 10%	-10%
	£000	£000	£000
Equities	299,380	329,318	269,442
Fixed interest securities	41,726	45,899	37,553
Index linked securities	3,652	4,017	3,287
Property	15,285	16,814	13,756
Private Equity/Infrastructure	15,879	17,466	14,292
Total assets available to pay benefits	375,922	413,514	338,330

Currency Exposure - Asset Type	Value as at	Change to net assets	
	31 March 2017	available to pay benefits 10%	-10%
	£000	£000	£000
Equities	289,241	318,165	260,317
Fixed interest securities	38,971	42,868	35,074
Index linked securities	3,771	4,148	3,394
Property	12,277	13,505	11,049
Private Equity/Infrastructure	15,065	16,571	13,558
Total assets available to pay benefits	359,325	395,257	323,392

Interest Rate Risk

The Pension Fund invests in financial assets in order to obtain a return on investments for the benefit of The Fund. There is a risk that changing market interest rates will cause the fair value or future cash flows of a financial instrument to fluctuate. To mitigate this risk, the Fund invests in at least one investment fund which seeks to attain a fixed rate of return. The Council also monitors The Fund's exposure to interest rate risk on an ongoing basis.

The Fund's cash in hand is directly exposed to interest rate movements and as such it is possible to assess the affect that a change in interest rates would have on this. A 100 basis point movement in interest rates is deemed a suitable level of sensitivity to apply for an assessment of this risk. The analysis below assumes that all other variables remain constant and shows the effect in the year on the cash in hand if a +/- 100bps change is applied;

	Value as at 31 March 2018 £000	Change in year if interest rates moved by 100bps +100bps -100bps £000 £000	
Cash in hand	10,053	101	(101)

b) Credit Risk

This is the risk that other parties may fail to pay amounts due to the Fund. This can arise from deposits with financial institutions, for example a stock collapse or a due dividend failing to pay out. It can also arise through credit exposures to the Fund's members and employers.

The Council actively engages with its investment managers to monitor performance on a regular basis and to ensure that risk management and reduction is part of their investment approach. Investment risk is spread across fund managers and by investment category. Note 6 b) sets out the market value of securities held by the fund managers at 31 March 2018.

The Fund also employs a custodian to ensure that all transactions are settled in an orderly fashion. Contractors in the scheme under Admission Agreements agree to the provision of a reviewable bond to save the risk of financial loss to the fund.

At 31 March 2018 the Council held £10.05m cash on behalf of the Pension Fund through its treasury management arrangements. £0.48m was held in a dedicated Pension Fund bank account and the remaining balance of £9.57m was invested with institutions on the Council's approved counterparty list, which is carefully monitored to manage exposure to credit risk.

The Council's treasury management arrangements ensure that no deposits are made with banks or financial institutions unless they are rated independently and meet the Council's credit criteria. The Council also sets limits that determine how much can be placed with any one institution and for how long. By investing in a range of banks and money market funds the Council ensures that investment risk is spread. The money market funds chosen by the Council are all AAA rated.

c) Liquidity Risk

This is the risk that the Pension Fund might not have funds available to meet payments when they become due.

The Council manages the Pension Fund's cash flow activities and carefully monitors this to ensure that cash is available when needed. The Council holds cash investments on behalf of the Fund, which could be accessed on a same day basis if necessary. If the Fund found itself in a position where it didn't have enough funds to meet its commitments, it would be able to undertake borrowing on a temporary basis. The Fund's actuaries also establish the level of contributions needed to be paid in order to meet future liabilities. Currently contributions exceed benefits.

14. Audit Costs

An audit fee of £21,000 is payable to Grant Thornton UK LLP for external audit services used by the Pension Fund for the financial year 2017/18. This fee is unchanged from 2016/17.

15. Subsequent Events

Following the local elections that took place in May 2018, membership of the Pension Committee (including the Chair) changed. The first meeting of the new Committee took place in June 2018.

16. Pension Fund Annual Report

These accounts will be included in the Pension Fund Annual Report which will also include the Council's Statement of Investment Principles, governance arrangements and other key information for the operation of the fund. A copy can be obtained from the Strategic Director - Resources, or viewed on the Council's website at www.sutton.gov.uk. A summarised annual report will also be available on the website with other information and details of pension performance.

SECTION 7 - AUDITORS CERTIFICATE

Independent auditor's report to the members of London Borough of Sutton on the consistency of the pension fund financial statements included in the Pension Fund Annual Report

Opinion

The pension fund financial statements of London Borough of Sutton (the "Authority") for the year ended 31 March 2018 which comprise the Fund Account, the Net assets statement and the notes to the financial statements, including a summary of significant accounting policies, of the London Borough of Sutton Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2018 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18 and applicable law.

Pension Fund Annual Report - Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 27 July 2018.

Strategic Director – Resources responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Iain Murray

Iain Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
30 Finsbury Square
LONDON
EC2P 2YU

30 July 2018