London Borough of Sutton

Pension Fund Annual Report 2018/19

1. INTRODUCTION

I am pleased to present the Pension Fund Annual Report for 2018/19. This report brings together the Fund's financial statements together with a review of financial and investment performance and the work of the Pension Administration Team. It also contains the Fund's key policy documents.

Over the past year the Fund's value has increased by £22.2m to £663.8m, representing an increase of 3.5%. The Fund's investment managers have delivered an overall return on investment assets of 6.7% which is a good result given that the past year has seen particularly volatile financial markets, especially in the last 6 months. The average annual returns over 5 years of 8.7% and over 10 years of 10.3% are nearly twice the actuary's estimate and have contributed to making the Fund stronger. The Fund is still heavily weighted towards equity investments at 55% of the portfolio which will provide additional returns at a higher risk than other asset classes.

The Fund is working closely with the London Collective Investment Vehicle to ensure that it provides investment strategies that meet its needs. Following investment reviews in 2017 and 2018 the Fund has put on hold any major changes as a consequence of the volatile financial markets together with uncertainties over Brexit. The triennial valuation next year will also provide an opportunity to review the Fund's investment strategy on how it will meet its obligations to pay pension benefits. At the last valuation in 2016 the Fund was assessed at 80% funded with an interim valuation last year at over 90% funded. The triennial valuation is a key part of the Fund's management and will directly impact on the contributions paid by employers. This will not affect the benefits or contribution rates of individual members which are set nationally.

The Pension Administration Team has been restructured during the year in order to help deliver a more effective service across Sutton and Kingston Councils. The Fund's membership has declined slightly during the year to stand at just over 14,000. This is mainly attributed to group transfers for Carshalton College and between Sutton and Kingston Councils. The Team have continued to improve online services to members so that information on each member's benefits is readily accessible and membership records can be kept up to date by members themselves.

Councillor Jill Whitehead
Chair of the Pension Committee

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)		
Lyndsey Gamble, Head of Investment, Risk and Commercial Finance - Resources		
Bradley Peyton, Head of Insurance, Pensions and Records Management (Interim)		
David Kellond, Pensions Administration Manager		
Lisa Doswell, Senior Finance Lead - Treasury and Pensions		

Scheme Administrators		
Sutton and Kingston Shared Service		
Asset Pool		
London Collective Investment Vehicle (LCIV)		

Investment Managers:		
Equities (Active)	**Equities (Passive)**	**Pooled Multi Asset**
Newton (LCIV)	Legal and General	Baillie Gifford (LCIV)
Harding Loevner		Pyrford (LCIV)
Schroders		

Property	**Fixed Income**	**Infrastructure**
BlackRock	M&G	Partners Group
Aviva	Legal and General	
Invesco		

Investment Adviser	**Banker**
David Walker, Hymans Robertson	Lloyds Bank

Actuary	**Legal Advisor**
Alison Hamilton, Barnett Waddingham	South West London Legal Partnership

Auditor	**AVC Provider**
Grant Thornton	Clerical Medical

Performance Monitoring	**Custodian**
Northern Trust	Northern Trust

3. FINANCIAL PERFORMANCE

Fund Income and Expenditure From 2014/15 to 2018/19

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

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Contributions receivable	(28,441)	(30,587)	(34,116)	(34,359)	(47,373)
Benefits payable	26,546	32,630	26,518	32,125	66,527
Net payment (to)/from the Fund	(1,895)	2,043	(7,598)	(2,234)	19,154
Fund management expenses	3,236	3,192	3,263	6,115	6,308
Net returns on investment	(4,162)	(3,453)	(4,420)	(9,923)	(7,606)
Change in market value	(56,034)	(2,172)	(102,281)	(17,404)	(40,070)
Net increase in the Fund	**(58,855)**	**(390)**	**(111,036)**	**(23,446)**	**(22,214)**

The above table shows a net increase in the Fund's value of £216m over the past 5 years. This is largely attributed to the change in market value of £218m over this period. The net contributions from members has been mainly positive over the past 5 years with 2018/19 being particularly affected by group transfers as detailed below. The 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

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Contributions Receivable					
- Members	(5,797)	(5,889)	(5,661)	(5,940)	(6,072)
- Employers	(21,611)	(23,188)	(24,608)	(24,849)	(25,251)
- Transfers in	(1,033)	(1,510)	(3,847)	(3,570)	(16,050)
Total Contributions	(28,441)	(30,587)	(34,116)	(34,359)	(47,373)
Benefits Payable					
- Pensions	18,729	19,667	20,435	21,240	22,023
- Lump sum retirements and death benefits	4,793	4,729	4,095	4,550	5,170
- Transfers out	2,990	8,181	1,914	6,250	39,210
- Refunds	34	53	74	85	124
Total Benefits Payable	26,546	32,630	26,518	32,125	66,527
Net Payment to / (from) the Fund	**(1,895)**	**2,043**	**(7,598)**	**(2,234)**	**19,154**

As shown in the table above, the value of Transfers In and Transfers Out increased significantly in 2018/19. The figure of £16,050k for Transfers In during 2018/19 included the following group transfers receivable from the Royal Borough of Kingston upon Thames:

- In respect of the transfer of the Shared Finance Service, estimated at £9.6m
- In respect of the transfer of the Customer Contact Centre, estimated at £1.5m

The figure of £39,210k for Transfers Out during 2018/19 included the following group transfer payable from the London Borough of Sutton:

- In respect of the transfer of Human Resources to Merton, estimated at £5.4m
- In respect of the transfer of Human Resources to Kingston, estimated at £7.7m
- In respect of the transfer of Highways to Kingston, estimated at £8.9m
- In respect of the transfer of Carshalton College, estimated at £13.2m

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.

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Administration Cost					
Internal support costs	326	300	322	303	395
Other	308	133	63	197	113
Sub-total Administration Costs	634	433	385	500	507
Investment Management Expenses					
Management fees	2,491	2,622	2,727	4,009	4,446
Transaction costs	-	-	-	1,335	1,118
Custodian	4	36	45	143	97
Sub-total Investment Management Expenses	2,495	2,658	2,772	5,487	5,661

Oversight and Governance Costs					
Actuarial fees	16	6	33	45	54
External audit	19	21	21	21	16
Investment advice	38	67	36	45	30
Other	34	7	16	17	39
Sub-total Oversight & Governance Costs	**107**	**101**	**106**	**128**	**140**
Total Fund Management Expenses	**3,236**	**3,192**	**3,263**	**6,115**	**6,308**

Administration costs have been fairly constant over the past 5 years although investment management expenses have seen a significant increase from 2017/18. This is explained in part by the increase in the fund value as managers' fees are based on a percentage of the market value of their portfolio. Also the Local Government Pension Scheme Advisory Board launched its cost transparency code at this time to improve the quality of information on investment fees. The Fund uses pooled investment vehicles for which it does not receive separate fee invoices but rather the fees are taken directly from the asset value of the fund so the code has helped to make identification of these fees easier. Oversight and Governance costs increased over the past 2 years as a result of additional work by the actuary on group transfers. Overall, in 2018/19 the cost of managing the Fund represents approximately 0.95% of the value of the Fund.

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Membership number	**11,522**	**12,648**	**13,260**	**14,236**	**14,088**
Cost per member					
Administration costs	55	34	29	35	36
Investment Management costs	217	210	209	385	402
Oversight and Governance costs	9	8	8	9	10
Total Fund costs per member	**281**	**252**	**246**	**430**	**448**

The above table shows that the Fund cost for each member of the fund was declining from 2014/15 to 2016/17, but has increased from then onwards, which is due to the inclusion of additional costs in those recent years as explained for the previous table.

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Current Assets	16,242	13,894	12,310	18,635	4,545
Current Liabilities	(565)	(1,654)	(3,530)	(7,582)	(13,772)
Net Current Assets	**15,677**	**12,240**	**8,780**	**11,053**	**(9,227)**

Current assets are made up of cash and income due to the Fund at the end of each year. These have decreased significantly in 2018/19 mainly as a result of cash payments made to fund group transfers

Current liabilities consist of fund expenses outstanding at year end which includes payments pending for group transfers. These have increased significantly in 2018/19, due to the inclusion of an outstanding payment for £13.1m for a group transfer of Carshalton College to the London Pension Fund Authority.

4. INVESTMENT POLICY AND PERFORMANCE REPORTING

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. From 2017/18 to 2018/19 the allocation to equities was reduced by 5% as a consequence of the decision to amend the Fund's asset allocation and invest in private debt. Currently this 5% is allocated to the Legal & General index-linked gilt fund and shown within the Bond allocation in the table below. As a consequence Bonds are 5% over target pending allocations to private debt. Pooled multi-asset funds together with alternatives (which includes infrastructure) are below target by 2% and 1% respectively. Property is 2% below the target allocation due to its relative performance against other asset classes.

Asset class	**Asset Allocation**	**Asset Allocation**	**Strategic Asset Allocation**	**Variance from Strategic Asset Allocation**
	31.03.2018	**31.03.2019**		**31.03.2019**
Equities	60	55	55	-
Bonds	15	20	15	5
Pooled Multi Asset	14	13	15	(2)
Property	8	8	10	(2)
Alternatives	3	4	5	(1)
	100	**100**	**100**	

Legal & General (L&G), Harding Loevner, Schroder, M&G, BlackRock and Partner's Group were employed as the Council's investment managers for the two years ending 31 March 2019. The Council also employed fund management services from Newton Investment Management (Newton), Baillie Gifford and Pyrford through the London Collective Investment Vehicle (LCIV). The Council was invested in three separate funds; M&G UK Companies Financing Fund, LaSalle UK Real Estate Fund of Funds and Invesco Real Estate UK Residential Fund. The market value of the investment assets under the management of each fund manager as at 31 March 2018 and 31 March 2019 is shown below.

Fund Manager	Value at 31/03/18 £'000	Value at 31/03/19 £'000
Investments managed by London Collective Investment Vehicle	**186,713**	**203,031**
Pyrford - LCIV Global Total Return Fund	41,940	43,603
Baillie Gifford - LCIV Diversified Growth Fund	46,654	47,165
Newton - LCIV Global Equity Fund	98,119	112,263
Investments managed outside of London Collective Investment Vehicle	**443,687**	**469,863**
Schroder Life QEP Global Active Value Fund	95,492	101,192
Harding Loevner Funds Plc Global Equity Fund	108,038	116,940
Legal & General UK Equity Index Fund	72,252	-
Legal & General All World Equity Index Fund	-	41,856
Legal & General Over 5 Year Index Linked Gilts Fund	-	35,279
M&G Alpha Opportunities Fund	49,478	48,500
M&G PP Index Linked Fund	45,866	50,144
M&G UK Companies Financing Fund LP	681	446
LaSalle Investors UK Real Estate Fund of Funds	12,834	13,123
BlackRock UK Property Fund	23,418	24,144
Invesco Real Estate UK Residential Fund SCSp	14,918	15,033
Partners Group Direct & Global 2015 S.C.A., SICAV-SIF & Global 2012 S.C.A., SICAR	20,710	23,206
Total	**630,400**	**672,894**

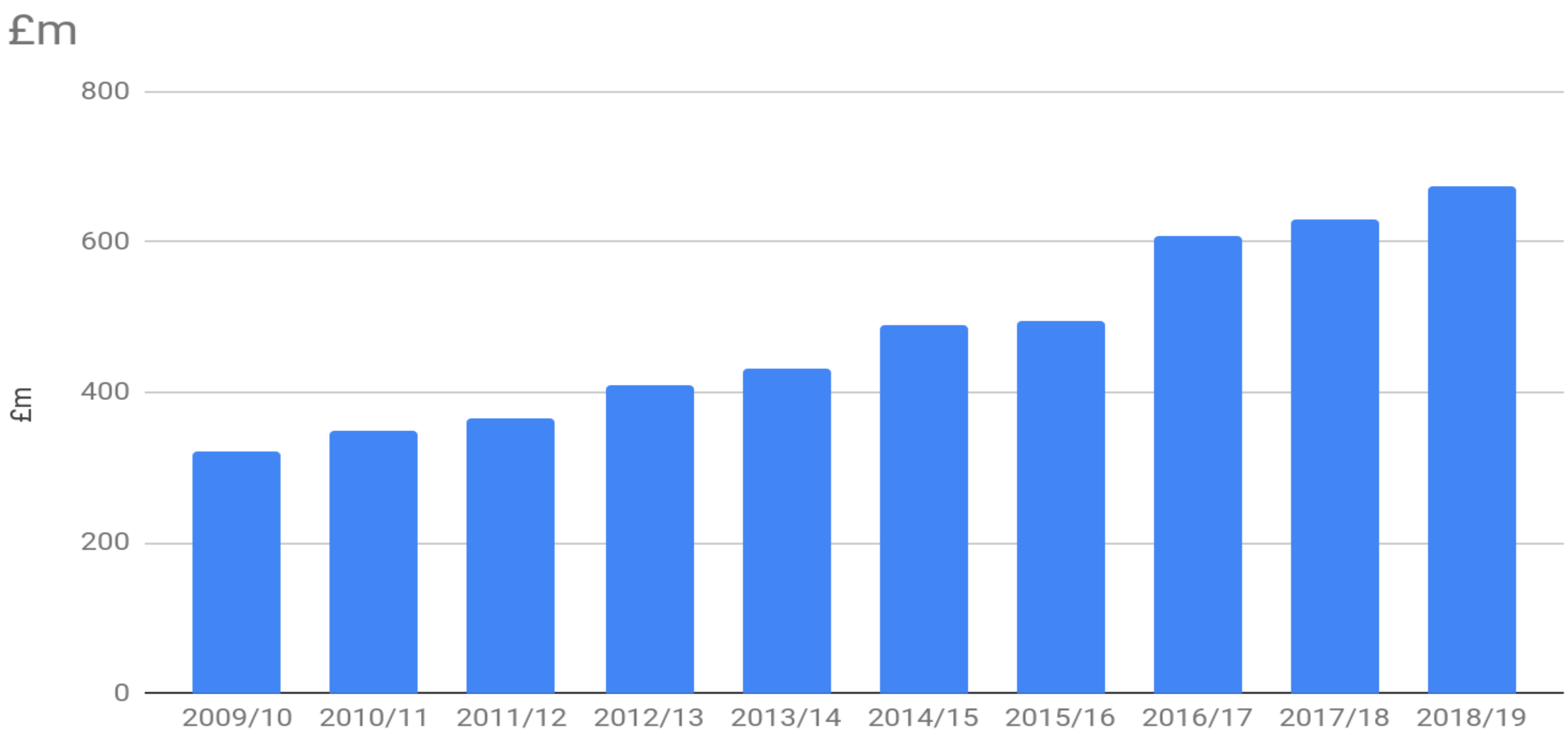
Each fund manager has been set a specific benchmark, as well as a performance target against which they will be measured. This is shown in the table below.

Manager	Asset Pool	Mandate	Benchmark	Performance Target
Newton	yes	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	yes	Pooled multi-asset	3 Month LIBOR +3%	3% above benchmark over rolling 3 year period (gross-of-fees)
Pyrford	yes	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

LaSalle	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

The market value of the total investment 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).

FUND VALUE OVER 10 YEARS



Fund History

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

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

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

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

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

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

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

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

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

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

Performance

The following two tables provide comparative analyses of manager's performance over 1 year, 3 years, 5 years and 10 years at total Fund level and over 1 year, 3 years and 5 years at fund manager level against the relevant indices in the Council's benchmark. All figures are shown net of fees.

Performance	1 year	3 years	5 years	10 years
Fund	6.4	10.0	8.7	10.3
Benchmark	7.1	9.3	8.3	10.7
Relative return	(0.7)	0.7	0.4	(0.4)

At total fund level, as at March 2019 the combined Fund underperformed the benchmark by 0.7% over the past year, outperformed by 0.7% per annum over three years, outperformed by 0.4% per annum over five years and underperformed by 0.4% per annum over 10 years. The table below shows the performance of individual fund managers.

As a passive manager Legal & General's returns matched the benchmark since inception. At the start of February 2019 the Legal & General UK passive fund was sold and the proceeds were re-invested into their global equity fund and their index-linked gilt fund. The gilt fund will be used to fund the allocation to private debt once a manager is appointed.

Manager	1 year performance			3 year performance			5 year performance		
	Fund Return	Benchmark Return	Relative return	Fund Return	Benchmark Return	Relative return	Fund Return	Benchmark Return	Relative return
London Collective Investment Vehicle:									
Newton	14.2	11.1	3.1	12.8	14.7	(1.9)	12.0	12.0	(0.0)
Baillie Gifford	0.3	4.1	(3.8)	5.0	3.7	1.3	4.3	3.7	0.6
Pyrford	3.4	4.1	(0.6)	3.2	3.7	(0.5)	3.6	3.7	(0.1)
Other Managers:									
Harding Loevner	8.1	10.5	(2.4)	16.6	14.4	2.2	14.5	11.8	2.7
Schroder	5.4	10.5	(5.1)	5.4	10.5	(5.1)	12.3	14.4	(2.0)
Legal & General	-	-	-	-	-	-	-	-	-
M&G bonds	3.1	2.8	0.3	6.3	4.0	2.3	-	-	-
BlackRock	4.6	4.9	(0.3)	5.9	6.2	(0.3)	8.4	9.1	(0.7)
LaSalle	3.7	4.9	(1.1)	4.9	6.2	(1.3)	7.8	9.1	(1.3)
Invesco	1.0	8.0	(7.0)	-	-	-	-	-	-
Partners Group Global 2012	11.5	8.0	3.5	16.5	8.0	8.5	14.3	8.0	6.3
Partners Group Direct 2015	1.2	8.0	(6.8)	-	-	-	-	-	-
Partners Group Global 2015	2.6	8.0	(5.5)	-	-	-	-	-	-
M&G UK Companies Financing Fund	2.2	0.5	1.7	3.6	0.3	3.3	3.8	0.3	3.5

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. It's 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 provide access to lower cost index-tracker funds managed by Blackrock and Legal and General Investment management.

At the end of 2018/19, the London Borough of Sutton Pension Fund had 30% of its fund managed by LCIV with a further 11% 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 £116k after LCIV expenses. LCIV has been operating for 3 years and is not yet self-financing as many London funds have yet to move their assets over. LCIV currently have 14 funds with £8bn of assets.

	2015/16	2016/17	2017/18	2018/19	Cumulative
	£'000	£'000	£'000	£'000	£'000
Set up Costs					
Share purchase	150	-	-	-	150
Annual subscription	25	25	25	25	100
Development funding charge	-	-	75	65	140
Other	-	-	-	4	4
Transition Costs					-
Fee Savings	(6)	(75)	(176)	(253)	(510)
Net Savings Realised	**169**	**(50)**	**(76)**	**(159)**	**(116)**

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 private equity (or infrastructure in Sutton's case).

	Asset Pool	Non-Asset Pool	Fund total
	Total	Total	
	£'000	£'000	
Management fees	1,276	2,920	4,197
Transaction costs	156	962	1,118
Custody fees	37	61	97
Performance fees	-	250	250
Total	**1,470**	**4,191**	**5,661**

6. 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 2018/19

Pensions Administration Team Restructure

During the winter period of 2018/2019, a consultation began on a proposed restructure of the Pensions Administration Team. The key aims of the proposed restructure were:

- to create a more resilient team structure;
- to ensure that there is sufficient resource to deliver a high-quality service; and
- to encourage and enable members of the team greater access and opportunity for career development.

The consultation ended in January 2019 and having considered the feedback provided a final proposal for restructuring was agreed, effective from 1st February 2019 providing for an increase of 1.2 full time equivalent posts. However, it will take some time to recruit to the vacant posts identified.

Redundancy & Early Retirement

There is continuing demand for costing of redundancies from all scheme employers.

Academy Schools

The total number of Academies was 36 at 31 March 2019. There were three new conversions to academy status, and one new academy created. For each of which actuarial assessments were undertaken to establish their starting position and employer contribution rate. Currently there are a further three schools expecting to convert to academy status in 2019/2020.

New Transferee Admission Agreements

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

Pensions Online

A system allowing members of the fund to update their personal details, change their nomination details, view their service history, view annual benefit statements and attach associated documents such as marriage certificates, was extended to all active and deferred members of the fund. Members can register for the service using this link: https://pensions.sutton.gov.uk/

Area Reviews – College Mergers

Following the merger of Carshalton College with two others outside of the London Borough of Sutton on 31st July 2017, the relevant members of the fund across all membership categories (Active, Deferred, Pensioner and Dependent) transferred to an alternative administering authority. However, to the time required for the transfer of member data, pensioner payments continued to be made by Sutton until September 2018. Work has continued through the year to recover the payments made on behalf of the new Administering Authority, while at the same time actuaries for the two authorities have continued to agree an appropriate bulk transfer payment.

Key Activities planned in 2019/20

In addition to the day-to-day running of the pension administration team, the key activities planned for 2019/20 include;

- Seek to better utilise the Pensions Administration software, to further automate and streamline processes where possible.
- Significantly promote usage of Pensions Online to active and deferred members, to show an improvement in the number of registered users.
- Explore the possibility of allowing online access to pay advice slips for Sutton pensioners (on an opt-in basis for existing pensioners, and a default with the ability to opt out for new pensioners)
- Following the results from the GMP Reconciliation process, update member records and rectify any over and underpayment issues.

7. GOVERNANCE

Role of Pension Committee

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

Purpose

To be responsible for all matters relating to the 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:

- the Council's performance targets for the managers;
- 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 6 elected Members of the Council and it meets at least four times a year. Members have full voting rights. The members of the Committee for 2018/19 was as follows:

Cllr Jill Whitehead (Chair)
Cllr Richard Clifton (Vice Chair) - from March 2019
Cllr Ben Andrew (Vice Chair) - to November 2018
Cllr Nali Patel
Cllr Eric Allen
Cllr Param Nandha
Cllr Edward Joyce

Committee attendance

	Councillor Jill Whitehead	Councillor Richard Clifton	Councillor Ben Andrew	Councillor Edward Joyce	Councillor Sam Weatherlake	Councillor Nali Patel	Councillor Eric Allen	Councillor Param Nandha
18 March 2019	✓	✓		✓	✓		✓	✓
19 November 2018	✓		✓	✓		✓	✓	✓
26 September 2018	✓		✓	✓		✓	✓	✓
18 June 2018	✓		✓	✓	✓			
Training at committee								
Property investments	✓	✓		✓	✓		✓	✓
Fixed income investments	✓		✓	✓		✓	✓	✓
Equities investments	✓		✓	✓		✓	✓	✓
Governance	✓		✓	✓	✓			
Other training								
Hymans Robertson - Ethical investing	✓		✓	✓		✓		✓
Schroders Trustee Training	✓							

Role of Pension Board

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

Purpose

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

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

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

Function

The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this 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 6 voting members; 3 scheme member representatives, 3 employer representatives and an independent Chair. During 2018/19 the following persons held these posts:

<u>Chair</u>
Michael Ellsmore

<u>Employer Representatives</u>
Robert Jordan (Cheam High School) - to July 2018
Ashley Thomas (Sutton Citizens Advice Bureau) - to July 2018
Angela Russell - from December 2018
Andrew Theobald - from December 2018

Tracey Burley - from December 2018

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

Board attendance

	Mike Ellsmore (Chair)	Ashley Thomas	Robert Jordan	Michael Curran	Trevor Harris	Chris Reeve	Andrew Theobald	Angela Russell	Tracey Burley
5 December 2018	✓			✓		✓		✓	
4 July 2018	✓	✓		✓		✓			
2 May 2018	✓	✓	✓	✓		✓			
Training									
LGPS National Developments	✓			✓		✓		✓	

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.

In 2018 the Government Actuary Department (GAD) reviewed all LGPS funds against 4 key criteria:

- Compliance - whether the valuation approach is in line with the scheme regulations
- Consistency - whether the valuation approach is consistent with methods adopted by other authorities
- Solvency - whether the employer contribution rate is appropriate to ensure the solvency of the pension fund; and
- Long-term cost efficiency - whether the employer contribution rate is appropriate to ensure the long-term cost efficiency of the pension fund and the scheme

Each pension fund's score for each measure is "flagged" (colour coded RAG status) and the LBS fund was assessed in all areas as "Green Flag". This means that there were no material issues to require a recommendation for remedial action from a solvency or long-term cost efficiency perspective. Of the 89 funds reviewed, 20 had amber flags and 2 had red flags.

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 the two leaders of Wandsworth and Merton Councils. A trade union member 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 with the first meeting of the new Shareholder Committee held in September 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 Section 11.

Risk Management

Responsibility for the Fund's risk management strategy sits with the Pension Committee. Significant emerging and persistent risks are recorded in the Pension Fund Risk Register which is reviewed regularly by the Committee. The Register is also reviewed by the Pension Board in its role of assisting the Council with securing compliance with control arrangements. The Register is managed and maintained by the 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 Section 15.

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 2016 and the results are summarised in the table below. This shows the Fund had a deficit of £129m which represents a funding level of 80%. This compares with a funding level of 67% at the previous valuation in 2013. The full valuation report can be found here: https://www.sutton.gov.uk/info/200436/customer_services/1752/shared_pension_administration_service/5 . The next valuation is due in 2019.

Past service funding position		Final basis 31 March 2016 £m
Smoothed asset value		503
Past service liabilities		
	Actives	194
	Deferred pensioners	140
	Pensioners	298
	Total	632
Surplus (Deficit)		(129)
Funding level		80%

9. EXTERNAL AUDIT

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

Opinion

The pension fund financial statements of London Borough of Sutton Pension Fund (the ‘pension fund’) administered by London Borough of Sutton (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 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 2018/19 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.

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 31 July 2019.

Interim 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 Interim Strategic Director - Resources 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 2018/19.

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.

Use of our report

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 audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Iain Murray, Key Audit Partner

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

London

30 September 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF the LONDON BOROUGH OF SUTTON

Report on the Audit of the Pension Fund Financial Statements

Opinion

We have audited the financial statements of the London Borough of Sutton Pension Fund (the 'pension fund') administered by the London Borough of Sutton (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Strategic Director - Resources use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Interim Strategic Director - Resources has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard

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

In our opinion, based on the work undertaken in the course of the audit of the pension fund’s financial statements and our knowledge of the pension fund the other information published together with the pension fund’s financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund’s financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in the above matters.

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

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Strategic Director – Resources. The Interim Strategic Director - Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund’s financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Interim Strategic Director – Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Iain Murray

Iain Murray

For and on behalf of Grant Thornton UK LLP, Appointed Auditor

London

31 July 2019

10. PENSION FUND ACCOUNTS 2018/19

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 2019

2017/18			2018/19
£'000		**Note**	**£'000**
	Dealings with members, employers and others directly involved in the Fund		
(30,789)	Contributions	7	(31,323)
(3,570)	Transfers in from other pension funds	8	(16,050)
(34,359)			(47,373)
25,790	Benefits	9	27,193
6,335	Payments to and on account of leavers:	10	39,334
32,125			66,527
(2,234)	Net (additions) / withdrawals from dealings with members		**19,154**
6,115	Management expenses	11	6,308
3,881	Net (additions)/withdrawals including fund management expenses		25,463
	Returns on Investments		
(9,782)	Investment income	12	(7,554)
(141)	Taxes on income	13	(52)
(17,404)	(Profit) loss on disposal of investments and changes in the market value of investments	14b	(40,070)
(27,327)	Net Return on Investments		**(47,677)**
(23,446)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(22,214)
(618,157)	Opening Net Assets of the Scheme		**(641,603)**
(641,603)	Closing Net Assets of the Scheme		**(663,817)**

Sutton Pension Fund Net Assets Statement for the year ended 31 March 2019

2017/18		Note	2018/19
£'000			**£'000**
630,550	Investment Assets	14	673,044
630,550	**Total Net Investments**		**673,044**
18,635	Current Assets	20	4,545
(7,582)	Current Liabilities	21	(13,772)
641,603	**Net Assets of the Fund available to fund benefits at the end of the reporting period**		**663,817**

Notes to the Pension Fund

PF Note 1 - Description of the Fund

a) General

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

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

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

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

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

b) Pension Committee

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

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

c) Membership

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

- Scheduled bodies which are local authorities or other similar bodies whose staff are automatically entitled to be members of the Fund

- Admitted bodies which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector. This includes designated admitted bodies.

PF Note 1 - Description of the Fund (continued)

Member bodies at 31 March 2019 were as follows:

Scheduled Bodies

Sutton Housing Partnership

Academy Schools (x 37)

Admitted Bodies

Citizens Advice Bureaux - Sutton Borough	Indigo (formerly Vinci Park)
ThamesReach	Nviro (Wallington High School for Girls Academy)
Sports and Leisure Management Ltd	Caterlink
Community Options (Heritage Care)	Orchard Hill College
Compass Catering (Overton Grange Academy)	Orchard Childcare
Compass Catering (St Philomena's)	Encompass
Eldercare	Cognus (formerly Sutton Education Service)
Mitie (facilities and security management)	

PF Note 1 - Description of the Fund (continued)

The following table summarises the membership numbers of the scheme:

2017/18		2018/19
No.		**No.**
45	Number of Employers with active members	55
	Active Members	
3,213	London Borough of Sutton	2,763
1,818	Scheduled bodies	2,286
525	Admitted bodies	502
5,556		5,551
	Deferred Members	
4,010	London Borough of Sutton	3,875
651	Scheduled bodies	549
93	Admitted bodies	121
4,754		4,545
	Pensioners (including Dependents)	
3,616	London Borough of Sutton	3,689
254	Scheduled bodies	229
56	Admitted bodies	74
3,926		3,992
14,236	Total	**14,088**

PF Note 1 - Description of the Fund (continued)

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th.

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

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

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

e) Funding

The Pension Fund is financed by contributions from employees, employers (including the Council, admitted and scheduled bodies) and from the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2019. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

In 2018/19, employer contribution rates ranged from 15.0% to 26.2% of pensionable pay. Employer contribution rates payable from 1 April 2017 were set by the triennial valuation as at 31 March 2016, the results of which were published on 31 March 2017. The Fund excludes teachers, who have a separate Teachers Pensions Scheme managed by the Teachers Pensions Agency. The Fund also excludes those contributing to the NHS Pensions Scheme

PF Note 2 - Basis Of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position as at 31 March 2019 .The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' (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 2019 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, which in 2018/19 totalled £52,334. 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 IAS19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (Note 19).

i) Additional Voluntary Contributions

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

PF Note 4 - Critical Judgements in Applying Accounting Policies

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

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years**.** The methodology used is within accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised at Note 18.
This estimate is subject to significant variances based on changes to the underlying assumption

PF Note 5 - Assumptions Made About The Future And Other Major Sources Of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year, as follows:

Item	**Uncertainties**	Effect if Actual Results Differ from Assumptions
Pension Liability	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. 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. The Government was refused appeal to the Supreme Court in June 2019 and now it is for the Scheme Advisory Body to determine how this matter is to be resolved. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	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. 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 0.7%, or £7.0m. This figure is based on a worst case scenario and the impact will be reduced if the remedies proposed are not as extensive as in the original GAD report.
Unquoted investments	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.

PF Note 6 - Events After The Reporting Period End

The Statement of Accounts was authorised for issue by the Strategic Director - Resources (S151 Officer) on 31 May 2019. At this date there was one non-adjusting event to report:

The latest value of the investments of the Fund show an increase from £673.4m to £668.3m (as valued at 30 April 2019). This is a decrease of £5.1m or 0.8%.

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 table below shows a breakdown of the total amount of employers' and employees' contributions.

By Category

2017/18		2018/19
£'000		**£'000**
(5,940)	Employees' contributions	(6,072)
	Employers' contributions	
(18,560)	Normal Contributions	(18,565)
(5,759)	Deficit Recovery Contributions	(5,933)
(530)	Augmentation contributions	(753)
(24,849)		**(25,251)**
(30,789)		**(31,323)**

PF Note 7 - Contributions Receivable - Continued

By Authority

2017/18		2018/19
£'000		**£'000**
(20,410)	London Borough of Sutton	(20,736)
(7,727)	Scheduled bodies	(7,532)
(2,652)	Admitted bodies	(3,055)
(30,789)		**(31,323)**

PF Note 8 - Transfers In From Other Pension Funds

2017/18		2018/19
£'000		**£'000**
(3,570)	Individual transfers	(4,932)
-	Group transfers	(11,118)
(3,570)		**(16,050)**

As at 31 March 2019, also provided for in the Accounts, were the following group transfers receivable from the Royal Borough of Kingston upon Thames:

- In respect of the transfer of the Shared Finance Service, estimated at £9.6m
- In respect of the transfer of the Customer Contact Centre, estimated at £1.5m

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

2017/18		2018/19
£'000		**£'000**
21,241	Pensions	22,023
4,115	Commutation and Lump sum retirement benefits	4,709
435	Lump sum death benefits	461
25,790		**27,193**

By Authority

2017/18		2018/19
£'000		**£'000**
22,795	London Borough of Sutton	23,895
2,074	Scheduled bodies	2,445
921	Admitted bodies	853
25,790		**27,193**

PF Note 10 - Payments To And On Account Of Leavers

2017/18		2018/19
£'000		**£'000**
85	Refunds to members leaving service	124
3,370	Group transfers	35,189
2,880	Individual transfers	4,021
6,335		**39,334**

There are four transfers payable from the London Borough of Sutton, provided for in the Accounts:

- In respect of the transfer of Human Resources to Merton, estimated at £5.4m
- In respect of the transfer of Human Resources to Kingston, estimated at £7.7m
- In respect of the transfer of Highways to Kingston, estimated at £8.9m
- In respect of the transfer of Carshalton College, estimated at £13.2m

PF Note 11 - Management Expenses

2017/18		2018/19
£'000		**£'000**
500	Administration Expenses	507
5,487	Investment Management Expenses	5,661
128	Oversight and Governance	140
6,115		**6,308**

The above table includes audit costs within Oversight and Governance which total £16,170 in 2018/19 (£21,000 in 2017/18)

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.

2017/18		2018/19
£'000		**£'000**
3,688	Management Fees	4,197
321	Performance Fees	250
143	Custody Fees	96
1,335	Transaction Costs	1,118
5,487		**5,661**

PF Note 12 - Investment Income

*2017/18		2018/19
£'000		**£'000**
	Pooled Investments:	
(2,752)	- Equities	(3,027)
(4,038)	- Fixed Income	(1,940)
(1,471)	- Property	(1,648)
(1,494)	- Other	(836)
(27)	Interest on Cash Deposits	(104)
(9,782)		**(7,554)**

*** Restated figures for 2017/18**

PF Note 13 - Taxes On Income

2017/18		2018/19
£'000		**£'000**
(141)	Withholding tax - pooled	(52)
(141)		**(52)**

PF Note 14 - Investments

2017/18	Investment Assets	2018/19
£'000		**£'000**
	Pooled Investment Vehicles - UK:	
104,649	Equities	33,810
70,297	Fixed Income - Public Sector	108,501
28,245	Fixed Income - Corporate	31,792
39,642	Property	41,210
435	Credit	328
5,770	Other	5,280
	Pooled Investment Vehicles - Overseas:	
299,380	Equities	368,458
18,585	Fixed Income - Public Sector	22,438
26,793	Fixed Income - Corporate	22,596
15,285	Property	14,668
15,729	Infrastructure	22,841
	Other Investment Balances:	
150	London CIV share capital	150
5,497	Cash deposits	940
94	Accrued income and recoverable taxes	31
630,550	Total Net Investment Assets	**673,044**

Other* includes absolute return, commodities and insurance linked assets within the Fund’s holding in Baillie Gifford.

PF Note 14a - Analysis of Pooled Investment Vehicles

Pooled Investment Vehicles:			Other managed funds:				
2018/19	Unit trusts	Unitised insurance policies	OEIC	SICAV	Insurance contract	Partnership	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**		**£'000**
- Equities	360,412	41,856					402,268
- Fixed Income	51,403	35,279	48,500		50,144		185,327
- Property	40,845			15,033			55,879
- Infrastructure				22,841			22,841
- Credit						328	328
- Other	5,280						5,280
	457,941	**77,135**	**48,500**	**37,874**	**50,144**	**328**	**671,923**

Pooled Investment Vehicles:			Other managed funds:				
2017/18	Unit trusts	Unitised insurance policies	OEIC	SICAV	Insurance contract	Partnership	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**		**£'000**
- Equities	331,776	72,252					404,028
- Fixed Income	48,576		49,478		45,866		143,920
- Property	40,009			14,918			54,927
- Infrastructure				15,729			15,729
- Credit						435	435
- Other	5,769						5,769
	426,130	**72,252**	**49,478**	**30,647**	**45,866**	**435**	**624,808**

PF Note 14b - Reconciliation of Movements In Investments

2018/19	Value 31 March 2018	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	404,029	81,605	(114,393)	31,829	403,069
- Fixed Income	143,920	35,940	(1,292)	5,304	183,871
- Property	54,925	368	(490)	1,182	55,985
- Infrastructure	15,729	7,275	(1,932)	1,769	22,841
- Credit	435	-	(103)	(4)	328
- Other	5,922	111	(71)	16	5,978
Sub-total Investments	**624,959**	**125,299**	**(118,281)**	**40,095**	**672,073**
Other Investment Balances:					
Cash deposits	5,497			(10)	940
Accrued income and recoverable taxes	94			(15)	31
Net Investment Assets	**630,550**			**40,070**	**673,044**

PF Note 14b - Reconciliation of Movements In Investments - continued

2017/18	Value 31 March 2017	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	392,094	6,788	(7,712)	12,859	404,029
- Fixed Income	141,628	4,039	(725)	(1,023)	143,920
- Property	52,457	170	(772)	3,071	54,925
- Infrastructure	14,915	6,024	(7,537)	2,327	15,729
- Credit	1,639	-	(1,208)	5	435
- Other	5,645	90	(62)	248	5,922
Sub-total Investments	**608,377**	**17,110**	**(18,017)**	**17,487**	**624,959**
Other Investment Balances:					
Cash deposits	872			(73)	5,497
Accrued income and recoverable taxes	127				94
Net Investment Assets	**609,377**			**17,414**	**630,550**

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 2019 is shown below. The Fund's major investments representing more than 5% of net investment assets are also identified in the table.

31 March 2018			31 March 2019	
Market Value	**% of total**	**Fund Manager**	**Market Value**	**% of total**
£'000	**%**		**£'000**	**%**
		Investments managed by London Collective Investment Vehicle		
41,940	6.7%	Pyrford - LCIV Global Total Return Fund	43,603	6.5%
46,654	7.4%	Baillie Gifford - LCIV Diversified Growth Fund	47,165	7.0%
98,119	15.6%	Newton - LCIV Global Equity Fund	112,263	16.7%
186,713	29.7%		203,031	30.2%
		Investments managed outside of London Collective Investment Vehicle		
95,492	15.1%	Schroder Life QEP Global Active Value Fund	101,192	15.0%
108,038	17.1%	Harding Loevner Funds Plc Global Equity Fund	116,940	17.4%
72,252	11.5%	Legal & General UK Equity Index Fund	-	0.0%
-	0.0%	Legal & General All World Equity Index Fund	41,856	6.3%
-	0.0%	Legal & General Over 5 Year Index Linked Gilts Fund	35,279	5.2%
49,478	7.8%	M&G Alpha Opportunities Fund	48,500	7.2%
45,866	7.3%	M&G PP Index Linked Fund	50,144	7.5%
680	0.1%	M&G UK Companies Financing Fund LP	445	0.1%
12,834	2.0%	LaSalle Investors UK Real Estate Fund of Funds	13,123	1.9%
23,418	3.7%	BlackRock UK Property Fund	24,144	3.6%
14,918	2.4%	Invesco Real Estate UK Residential Fund SCSp	15,033	2.2%
20,710	3.3%	Partners Group Direct & Global 2015 S.C.A., SICAV-SIF & Global 2012 S.C.A., SICAR	23,206	3.4%
443,687	70.3%		469,863	69.8%
630,400	**100.0%**	**Total**	**672,894**	**100.0%**

*2017/18 restated to exclude London CIV and other

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.

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.

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	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

PF Note 15a - Fair value hierarchy

31 March 2018					31 March 2019			
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:				
120,833	283,195	-	404,028	Equities	130,740	271,528	-	402,268
29,143	114,778	-	143,921	Fixed Income	29,802	155,525	-	185,327
-	4,103	50,824	54,927	Property	-	4,039	51,840	55,879
-		15,729	15,729	Infrastructure			22,841	22,841
-		435	435	Credit			328	328
	5,769	150	5,919	Other		5,280	150	5,430
149,976	**407,845**	**67,138**	**624,959**	**Financial Assets at fair value through profit and loss**	**160,542**	**436,372**	**75,159**	**672,073**

PF Note 15b: Reconciliation Of Fair Value Measurements Within Level 3

2018/19	Value 31 March 2018	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2019
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	50,824	-	-	284	(439)	1,171	51,840
- Private Equity/Infrastructure	15,729	-	-	7,275	(1,932)	1,769	22,841
- Credit	434	-	-	-	(103)	(4)	327
- Other	**150**	**-**	**-**	**-**	**-**	**-**	150
Total	**67,138**	**-**	**-**	**7,559**	**(2,474)**	**2,936**	**75,159**

2017/18	Value 31 March 2017	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2018
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	48,552	-	-	106	(741)	2,907	50,824
- Private Equity/Infrastructure	14,915	-	-	6,024	(7,537)	2,327	15,729
- Credit	1,639	-	-	-	(1,209)	5	434
- Other	150	-	-	-	-	-	150
Total	**65,256**	**-**	**-**	**6,130**	**(9,487)**	**5,239**	**67,138**

PF Note 16a - Classification of financial instruments

* Restated		2017/18				2018/19
Fair value through profit and loss	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**		**Fair value through profit and loss**	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial Assets			
			Pooled Investment Vehicles:			
404,028	-	-	Equities	402,268	-	-
143,920	-	-	Fixed income	185,327	-	-
54,927	-	-	Property	55,879	-	-
15,729	-	-	Infrastructure	22,841	-	-
435	-	-	Credit	328	-	-
5,920	-	-	Other*	5,430	-	-
-	15,549	-	Cash deposits		4,168	-
-	8,676	-	Sundry debtors		1,347	-
624,959	**24,225**	**-**		**672,073**	**5,516**	**-**
			Financial Liabilities			
-	-	(7,582)	Creditors			(13,772)
-	**-**	**(7,582)**		**-**	**-**	**(13,772)**
624,959	**24,225**	**(7,582)**	**Total**	**672,073**	**5,516**	**(13,772)**

*2017/18 figures have been restated for IFRS9

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

2017/18		2018/19
£'000		**£'000**
	Financial Assets	
17,487	Designated at fair value through profit and loss	40,095
(83)	Designated at amortised cost	(25)
17,404		**40,070**

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 Panel who monitor investment performance and compliance quarterly, including the internal control arrangements of external fund managers and the custodian.

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 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 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.

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 10.0%. 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 2019 along with the impact that a 10.0% 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 2019. Because 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 31/03/2018	Value on 10% price increase	Value on 10% price decrease	Currency Exposure - Asset Type	Value as at 31/03/2019	Value on 10% price increase	Value on 10% price decrease
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
299,380	329,318	269,442	Overseas equities	368,458	405,304	331,612
45,378	49,916	40,840	Overseas fixed income	45,034	49,537	40,530
15,285	16,814	13,757	Overseas property	14,668	16,135	13,202
15,729	17,301	14,156	Overseas infrastructure	22,841	25,125	20,557
375,772	**413,349**	**338,195**	**Total assets available to pay benefits**	**451,001**	**496,101**	**405,901**

Other Price Risk -Sensitivity Analysis

Value as at 31/03/2018	Change +/-	Value on increase	Value on decrease	Asset Type	Value as at 31/03/2019	Change +/-	Value on increase	Value on decrease
£'000	**%**	**£'000**	**£'000**		**£'000**	**%**	**£'000**	**£'000**
404,028	17.4	474,329	333,727	Equities	402,268	16.8	469,849	334,687
143,920	9.3	157,305	130,536	Fixed income	185,327	9.5	202,933	167,721
54,927	14.3	62,782	47,072	Property	55,879	14.3	63,869	47,888
15,729	15.8	18,214	13,243	Infrastructure	22,841	15.9	26,473	19,209
435	0.5	437	433	Credit	328	0.5	330	326
5,498	0.5	5,526	5,471	Cash	940	0.5	944	935
6,013	9.0	6,555	5,472	Other	5,461	9.1	5,958	4,964
630,551		**725,148**	**535,954**	**Total**	**673,044**		**770,356**	**575,730**

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 which 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 a special 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 special interest bearing account maintained by Council officers. The remainder is invested in fixed term deposits taking into account likely future cash flows. 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

Rates of contributions paid by the participating Employers during 2018/19 were based on the actuarial valuation carried out as at 31 March 2016 by the Fund's actuary, Barnet Waddington.

The following table shows a summary of the results of the valuation:

Past Service Position	**31/03/2016**
	£m
Past Service Liabilities	(632)
Market Value of Assets	503
Surplus (Deficit)	(129)
Funding Level	80%

Financial Assumptions		**31/03/2016**
	Nominal	**Real**
Discount Rate	5.2%	2.8%
Salary Increases*	3.9%	1.5%
Pension Increases	2.4%	-

Contribution Rates	
Employer Future Service Rate *	17.2%
Past service adjustment (21 year spread) **	6.5%
Total Employer Contribution Rate	**23.7%**

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 2017 to 31 March 2020 are set out in a certificate dated 31 March 2017 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 contributions rates have been calculated individually and certified by the Fund's actuary

PF Note 19 - Actuarial present value of promised retirement benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2019, 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 2018		31 March 2019
£'000		**£'000**
(1,066,318)	Actuarial Fair Value of Promised retirement benefits	(1,074,915)
640,400	Net Fund Assets available to fund benefits	663,817
(425,918)	Net Liability	**(411,098)**

PF Note 20 - Current assets

31 March 2018		31 March 2019
£'000		**£'000**
8,246	Contributions	1,231
336	Other debtors	85
10,053	Cash at Bank	3,229
18,636	Total Current Assets	**4,545**

PF Note 21 - Current liabilities

31 March 2018		31 March 2019
£'000		**£'000**
(20)	Refund of contributions	(35)
(7,399)	Unallocated contributions	(313)
(163)	Other Creditors	(13,424)
(7,582)	Total Current Liabilities	**(13,772)**

Other creditors includes £13.1m accrual for Carshalton College bulk transfer.

PF Note 22 - Additional voluntary contributions

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

The total AVCs paid by members in 2018/19 were £109k (£122k in 2017/18), as below:

31 March 2018		31 March 2019
£'000		**£'000**
122	Clerical Medical & Equitable Life	109
122		**109**

These are invested with the Council's approved AVC providers and are a money purchase arrangement. At 31 March 2019, the total value of the AVC fund with Clerical Medical and Equitable Life was £762k (£819k at 31 March 2018).

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 2018/19 was £395,312 (£302,700 in 2017/18)

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

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

PF Note 24 - Contingent liabilities and contingent assets

The Fund has a contingent liability in respect of a guarantee provided to the City of London Pension Fund for the pension liabilities of the London CIV. There are no known material contingent assets as at 31 March 2019. There are no outstanding contractual commitments and no material relating non-adjusting events occurring subsequent to the period end.

11. GOVERNANCE COMPLIANCE STATEMENT

1. Summary

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 Local Pension Board, a stand-alone body. By producing such a statement (shown below) the Administering Authority is compliant with the legislation from the Secretary of State, however the statement does show that there are two areas where best practice is not met. These areas relate to the inclusion of scheme representatives on the Pension Committee.

Part 1: Pension fund administration

2. Delegation to the pension committee

Guidance:	Assessment:
2.1 The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant - This is discharged through a formal decision-making committee, the Pension Committee.

Guidance:	Assessment:
2.2 Representatives of participating LGPS employers, admitted bodies 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.	Non Compliant - Under the best practice guidance issued by DCLG, scheme member representatives may be included as members of the Pension Committee. There are currently no scheme representatives on the Pension Committee. However scheme representatives are included within the Pension Board.
2.3 Where a secondary committee or panel has been established the structure ensures effective communication across both levels.	Not applicable as there is currently no secondary committee or panel.
2.4 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.	Not applicable as there is currently no secondary committee or panel.

3. Committee membership and representation

Guidance:	Assessment:
3.1 All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities, scheme members, independent professional observers, and expert advisors.	Non Compliant - See comments under 2.2 above. All key stakeholders are represented on the Pension Board.

Guidance:	Assessment:
3.2 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.	Not applicable as there are currently no such members.
3.3 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.
3.4 At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant - Members receive briefings and training including the need to declare at the start of any meeting any financial or pecuniary interest related to specific matters on the agenda.

4. Voting

Guidance:	Assessment:
4.1 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. All member or employer representatives on the Pension Board have equal voting rights.

5. Training / facility time / expenses

Guidance:	Assessment:
5.1 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.
5.2 That 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 - As above.

6. Meetings (frequency/ quorum)

Guidance:	Assessment:
6.1 An administering authority's main committee or committees meet at least quarterly.	Compliant - The Pension Committee meet with a quorum at quarterly intervals as required by its terms of reference.
6.2 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.	Not applicable as there is currently no secondary committee or panel.

Guidance:	Assessment:
6.3 An administering authority who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant - All key stakeholders are represented on the Pension Board.

7. Access

Guidance:	Assessment:
7.1 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.

8. Scope

Guidance:	Assessment:
8.1 Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant - Under the Pension Committee's terms of reference it can consider any matter relevant to the Pension Fund. Wider scheme issues are evident in policy statements.

9. Publicity

Guidance:	Assessment:
9.1 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 web site along with details of planned meetings of the Pension Committee that are open to stakeholders.

Part 2: Arrangements for the local pension board

10. Functions of the board

Guidance:	Assessment:
10.1 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 Functions (Appendix II to the Annual Report).

11. <u>Membership</u>

Guidance:	Assessment:
11.1. 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 - The Pension Board consists of 7 members and is constituted as follows: · 3 Scheme employer representatives · 3 scheme member representatives · 1 Independent member selected by the Administering Authority Person specifications and job descriptions exist for each role. Vacancies are publicised. Officers from the Administering Authority assess each candidate's statement against the Person Specification and form a shortlist of suitable candidates. If there are more than 3 suitable candidates for each vacancy then a ballot will be held. Representatives serve for a fixed two year term which can be extended subject to re-nomination. Termination occurs automatically at the expiry of a term. Other than ceasing to be eligible a Board member may only be removed from office during a term by the unanimous agreement of all of the other Board members. The removal of the independent member requires the consent of the Scheme Manager.

12. <u>Code of conduct</u>

Guidance:	Assessment:
12.1. 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.

13. <u>Voting rights</u>

Guidance:	Assessment:
13.1. 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 members do not have voting rights on the Board.	Compliant - The Board consists of 6 voting members, as follows: 3 Member Representatives; and 3 Employer Representatives. There is an equal number of Member and Employer Representatives and 1 independent Chair who is not entitled to vote.

14. Conflict of interests

Guidance:	Assessment:
14.1. 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 provide 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.

15. Appointment of a chair / vice-chair

Guidance:	Assessment:
15.1. 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.

16. Role of advisers

Guidance:	Assessment:
16.1. The terms should set out the role of professional advisers, or other advisers to the Board and the process for their appointment and agreeing their fees. In addition the process for the Board accessing existing advisers to the Administering Authority should also be set out.	Compliant - The Board may be supported through the appointment of advisers and can consult with such advisers to the Board and on such terms as it shall see fit within the budget for the Board that is met from the Fund. The Chair is required to notify the Administering Authority of any proposed use of the existing advisers to the Pension Committee or of the intention to consult with other advisers.

17. Role of officers

Guidance:	Assessment:
17.1. 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.

18. Administration of meetings including data protection

Guidance:	Assessment:
18.1. 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 3 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.

19. Quorum

Guidance:	Assessment:
19.1. 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 representatives 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.

20. Attendance requirements

Guidance:	Assessment:
20.1. 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 3 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 to their capacity to attend and prepare for meetings or to participate in required training.

21. Role of substitutes

Guidance:	Assessment:
21.1. 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.

22. Creation of working groups / sub-committees

Guidance:	Assessment:
22.1. 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.

23. Allowances / expenses

Guidance:	Assessment:
23.1. 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.

24. Budget

Guidance:	Assessment:
24.1. The terms should set out a process for the Board to have access to a budget for specified purposes	Compliant - The Board is 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.

25. Knowledge and Understanding

Guidance:	Assessment:
25.1. 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.

26. Reporting

Guidance:	Assessment:
26.1. The terms should include arrangements for the reporting of information to the Administering Authority including direct reporting arrangements where the Board has material concern. In addition the methods used to communicate to scheme members and employers should be included.	Compliant - The Board is required to report its requests, recommendations or concerns to the Pension Committee. The Board should report any concerns over a decision made by the Pension Committee to the Committee subject to the agreement of at least 50% of voting Board members provided that all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate. Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee and has not been rectified within a 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 the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistle blowing policy].

Guidance:	Assessment:
	Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report. Board agendas and minutes and training and attendance logs may be published using the following means: on the Fund’s website, as part of the Fund's own annual report; as part of the Governance Compliance Statement.

12. INVESTMENT STRATEGY STATEMENT

Introduction and background

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

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

The ISS, which was approved by the Committee on 20 March 2017, 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 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 Statement.

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 dependants, 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. Any planned rebalancing activity is reported and discussed at committee.

Fund Investment Beliefs

The investment beliefs of the Fund are set out in Appendix A. These beliefs underpin the investment strategy taken by the Fund.

Investment of money in a wide 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 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 and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. 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

Asset Class	**Target Allocation %**
UK Equities	13
Overseas Equities	42
Total Equities	**55**
Property	10
Absolute Return	15
Bonds	15
Infrastructure	5
Total	**100**

As part of the 31 March 2016 actuarial valuation the Fund Actuary has assumed a discount rate and therefore required rate of return on the Fund assets of 5.2% p.a. This includes an allowance for prudence. The Committee believes that the current investment strategy will generate returns in excess of the required return while taking an appropriate degree of risk and tests the ability of the strategy to meet the Fund's objectives as part of the strategy review process.

Managers

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

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

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

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to 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 is currently in the process of carrying out a strategic review following the completion of the 2016 actuarial valuation which will consider 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 reduce the Fund's ability to generate the 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 assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager, using a range of approaches for equity investment and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess 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.

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 proposed structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to 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. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. 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	Manager	% of Fund Assets	Benchmark & Performance Objective
Absolute Return	Baillie Gifford	7.3	Benchmark: 3 month LIBOR + 3% Performance Objective: 3% above benchmark over rolling 3 year period (gross of fees)
Absolute Return	Pyrford	7.1	Benchmark: 3 month LIBOR + 3% Performance Objective: 3% above benchmark over rolling 3 year period (gross of fees)

The fund holds 12% or £68m 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. Plans are also in place for a transfer of the Newton Global Equities mandate into the London CIV.

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 & Performance Objective**	**Reason for not investing via the London CIV Pool**
Global Equities	Harding Loevner	15.7	Benchmark: MSCI All Countries World NDR Index Performance objective: 3% above benchmark over rolling 3 year period (gross of fees)	No other global equity managers available
Global Equities	Schroder	15.9	Benchmark: MSCI All Countries World NDR Index Performance objective: 3% above benchmark over rolling 3 year period (gross of fees)	No other global equity managers available

Asset Class	Manager	% of Fund Assets	Benchmark & Performance Objective	Reason for not investing via the London CIV Pool
Bonds	M&G (Alpha Fund)	8	Benchmark: 3 Month LIBOR + 3% Performance objective: 3 Month LIBOR + 3 to 5 %	No bond managers on London CIV panel
Bonds	M&G (Index Linked)	8	Benchmark: FTSE A British Government Over 5 Years Index-Linked Performance objective: 0.75% above benchmark over rolling 3 years period (gross of fees)	No bond managers on London CIV panel
Property	Blackrock	3.7	Benchmark: IPD UK All Pooled Property Funds Index Performance objective: To outperform the benchmark	

Asset Class	Manager	% of Fund Assets	Benchmark & Performance Objective	Reason for not investing via the London CIV Pool
Property	Aviva	2	Benchmark: IPD UK All Pooled Property Funds Index Performance objective: To outperform the benchmark	No property managers on London CIV panel
Property	Invesco	0.4	Performance objective: Unleveraged return of 8-9%	No property managers on London CIV panel

The fund holds £16.7m or 2.8% of the fund in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest

Structure and governance of the London CIV Pool

The July 2016 submission to Government of the London CIV Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. As the Pool develops and the structure and governance of the Pool are fully established the Fund will include this information in future iterations of the ISS.

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

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include on training and information sessions on matters of social, environmental 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 promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests 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.

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f).

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.

As part of its compliance with the Stewardship Code the Fund has adopted a set of Voting Intention Guidelines. The current guidelines can be found on the Fund's website. The Committee publishes an annual report of voting activity as part of the Fund's annual report. 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.

13. FUNDING STRATEGY STATEMENT

Introduction

This is the Funding Strategy Statement for the London Borough of Sutton Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and describes the 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). The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement. This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS)/Statement of Investment Principles (SIP) and has been prepared with regard to the guidance issued by CIPFA.

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement 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(5) of the Regulations;
- Ensure that the regulatory requirements to set contributions so as to ensure 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 purposes 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 purposes of the Fund are to:

- Pay pensions, lump sums and other benefits provided under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive 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 to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions;
- 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.

Key parties

The key parties involved in the funding process and their responsibilities are as follows:

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;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund’s assets; 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/SIP 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, including admission bodies, participate in the Fund.

The responsibilities of each Scheme 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 on the Fund.

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 to the administering authority on bonds or other forms of security against the financial effect on the Fund 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 his or her 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 2016. A summary of the methods and assumptions adopted is set out in the sections below.

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.

Funding method
The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution 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. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer 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 chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date (“past service”) and benefits in respect of service expected to be completed after the valuation date (“future service”). This approach focuses on:

- 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 for pensions in payment. 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 primary rate as defined in Regulation 62(5) of the Regulations) which is the level of contributions required from the individual employers which, in combination with employee contributions is expected to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the primary contribution rate represents the cost of one year’s benefit accrual.

For closed employers, the 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.

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 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 statistical assumptions which are essentially estimates of the likelihood 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. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2016 was 3.3% p.a.

Future pay inflation
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 inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2016 was CPI plus 1.5%, with a short-term assumption in line with CPI for the period to 31 March 2020. An allowance has also been made for promotional increases.

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 0.9% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2016 was 2.4% p.a.

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.

For open employers, 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 underlying 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. The discount rate adopted for the 31 March 2016 valuation was 5.2% p.a.

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer becomes an exiting employer under Regulation 64.
The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

The adjustment to the discount rate for closed employers may be set to a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis if the Fund do not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to minimise the risk of deficits arising after the termination date.

Asset valuation
For the purposes 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.

Statistical assumptions
The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

2016 valuation results
As at 31 March 2016, as calculated at the 2016 valuation, the Fund was 80% funded, corresponding to a deficit of £129m.

The primary rate required to cover the employer cost of future benefit accrual was 17.2% of payroll p.a.

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. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

The recovery periods adopted for the employers in the Fund for the 2016 valuation varied by employer but was not to exceed 19 years. The 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 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.

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 the responsibility of particular historic liabilities.

Cessation valuations

When an employer exits the Scheme and becomes an exiting employer, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an exit payment, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

Links with the Investment Strategy Statement (ISS)/Statement of Investment Principles (SIP)
The main link between the Funding Strategy Statement (FSS) and the ISS/SIP 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 underlying investment strategy as set out in the ISS/SIP.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying 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. Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

However, the 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 reduce the funding level by approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early 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.

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.

Governance
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 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.

Monitoring and review

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

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

14. COMMUNICATIONS POLICY

The Regulations require each administering authority in England and Wales to prepare, maintain and publish a written statement setting out their policy concerning communications with members and employing authorities (including non-scheme employers).

The policy must cover communications with:

* Members
* Representatives of members
* Prospective members and
* Employing authorities.

In particular the policy on:

* The provision of information & publicity about the Scheme
* The format, frequency & method of distributing such information or publicity
* The promotion of the Scheme to prospective members and their employing authorities

The Policy Statement is attached at Annex 1.

The provision of information and publicity about the Scheme	The format, frequency and method of distributing such information or publicity
Members and Representatives of members	
1. Pension Updates / bulletins are produced whenever a change is made to the regulations / where members may need to make an election regarding their entitlement.	Electronic document. Produced as and when required by change in Regulations etc. Distributed via e-mail cascade (via Group HR Managers / employers) and via “Pensions” area of the Borough (& Schools) intranet. Item included in “insight”

2. Annual Benefit Statements (ABS) / letter including any recent or anticipated changes to the LGPS.	System generated printed statements show benefits accrued / estimated at 65 / Death in service, Nomination & Service History. Issued annually for year to previous 31 March. Marked "Private & Confidential" and posted to member home address
3. The "Pensions" area on the Borough (& School) intranet AND "Staff Pensions" on the LB Sutton website	Scheme information / Guide, recent updates (bulletins) and LINKS to the national LGPS site. Updates as necessary – change in Regulations etc. Newsletters / e-mail cascade point to intranet updates. As above also including all required forms for download, completion & sending to Sutton Pension Services for action.

4. Sutton Pension Services (SPS) are available to assist members with their enquiries.	Available as required or by appointment during normal office hours. Will assist members with their enquiries in person, by phone or respond to written (letter / email) requests. In all communications contact numbers / email addresses are provided so members can easily contact SPS if guidance is required.
5. Presentations to (groups of) staff / Scheme members.	Presentation supported by appropriate printed / electronic information. As required.
6. Presentations are made at Pre-retirement courses.	Presentation supported by appropriate printed / electronic information. As required.

7. Pension Drop in Days (surgeries)	Held annually to coincide with the issue of Annual Benefit Statements (ABS) & pension update. Members / prospective members can meet SPS staff to discuss details of their ABS, receive further illustrations, information and printed documentation (FAQ etc)
8. Pension Fund Annual Meeting –	Held in July each year Review the Pension Fund Annual Report & Accounts, the work of the Pension Committee & Pension Fund investment performance. Invited speaker presentation on a current related topic.

The provision of information and publicity about the Scheme	The format, frequency and method of distributing such information or publicity
Employing authorities	
9. New starters with the Borough (and other scheme employers) are sent an “Employee Guide to the LGPS” with their offer of employment. Note “opt out” forms can only be obtained from Sutton Pension Services or from LB Sutton Website under Staff Pensions	Printed copy Can be downloaded for completion and sent to SPS or employer as appropriate, for action
10. The LGPS Employer Guide and instructions on “Employer” responsibilities.	Electronic / printed versions are available. Revised versions provided as necessary – change in Regulations etc. If necessary, meet with new employer to ensure understanding.

11. LGA Pensions Committee Circulars / Guides	Electronic / printed versions are available – circulated as received Video presentation on major changes – copy made available to employers / members
12. CLG Regulation amendments / drafts / consultations	Electronic / printed versions are available – circulated as received. Any response to draft / consultations copied back to borough

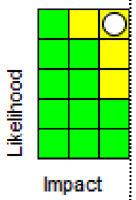
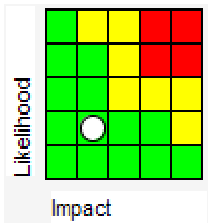
Scheme promotion to prospective members / employing authority
Prospective members: New starters with the Borough (and other scheme employers) receive an "Employee Guide to the LGPS" (with option forms etc) with their offer of employment. Sutton Pension Services (SPS) staff available to assist prospective members with their enquiries in person, by phone or to respond to written or email requests. SPS will make presentations to staff as necessary Can obtain further information from the National LGPS web site at www.lgps.org.uk at the Sutton Staff Pensions web page or national LGPS site at www.lgps2014.org;
Employing authority: The LGPS Employer Guide and instructions on "Employer" responsibilities are provided by SPS. * Electronic / printed versions are available. * Revised versions provided as necessary – change in Regulations etc. * If necessary, meet with new employer to ensure understanding.

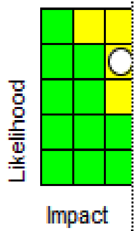
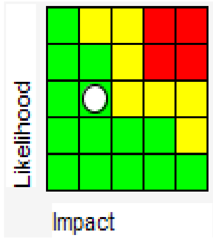
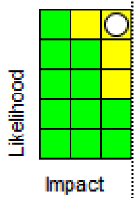
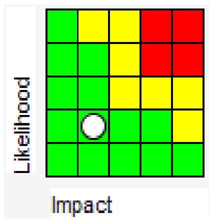
15. RISK REGISTER

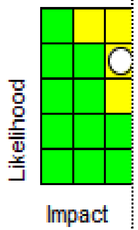
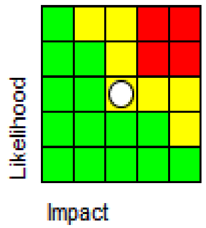
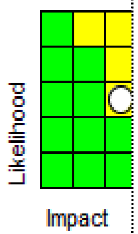
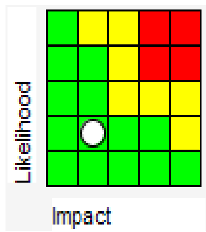
Scoring Key:

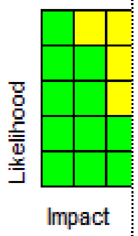
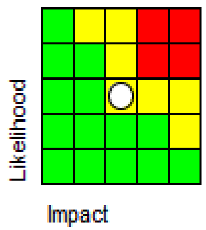
Likelihood		Impact				
		1 - Insignificant	2 - Minor	3 - Moderate	4-Major	5 - Critical
Almost Certain	5	5 - G	10 – A	15 – A	20 – R	25 – R
Likely	4	4 – G	8 – G	12 – A	16 – R	20 – R
Possible	3	3 – G	6 – G	9 - A	12 – A	15 – A
Unlikely	2	2 – G	4 – G	6 – G	8 – G	10 – A
Rare	1	1 – G	2 – G	3 – G	4 – G	5 – G

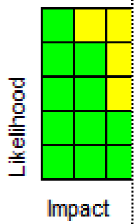
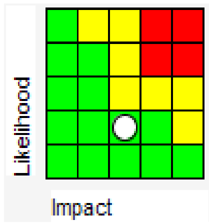
RAG Key: Red (High Risk), Amber (Medium Risk) and Green (Low Risk)

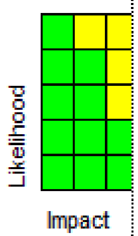
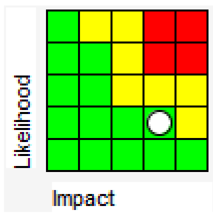
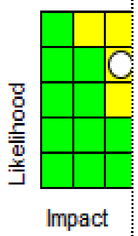
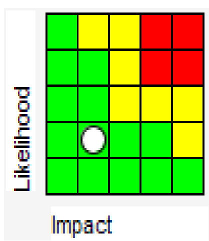
a) Reference b) Risk Category c) Source d) Date	Risk Description	Risk Likelihood and Impact	Gross Risk Score & RAG	Risk Owners	Risk Control (Mitigation)	Residual Risk Likelihood and Impact	Residual Risk Score & RAG	Notes
1. Administration Risks								
a) 1.1 b) Administration c) Governance Review d) Updated November 2016	Not complying with CIPFA's guidance on medium term business planning (*Principles for Investment Decision-making and Disclosure, 2012*). The Pension committee's current *Work Programme* may be considered a Business Plan, but falls short of the guidance.		15 Amber	Pension Committee & Strategic Director of Resources	A comprehensive Medium Term Business Plan that includes a Medium Term and Annual Budget and covers the major administration milestones and issues should be considered and approved by the Committee and monitored on a quarterly basis.		4 Green	Risk Control (Mitigation) action implemented.

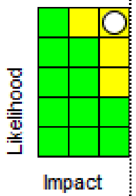
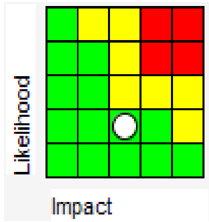
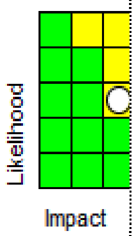
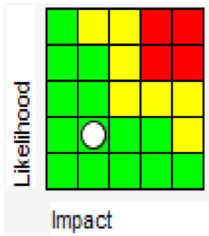
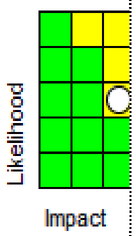
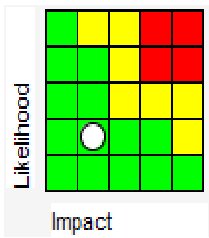
a) 1.2 b) Administration c) Governance Review d) Updated November 2016	Poor performance by some admitted Employers in the Fund resulting in poor Scheme record keeping and failure to issue timely Employee Benefit Statements.		12 Amber	Pension Committee & Strategic Director of Resources	Develop the Pension Administration Update report to include quality and performance issues including compliance with CoP 14 by the Fund and individual employers. The report should include monitoring of agreed Performance Standards. Explanations of any performance below targets set by the Fund should be explained including where this is due to failure by the employer. Introduction of self-service which will enable admitted Employers to upload their own data.		6 Green	Risk Control (Mitigation) action being implemented.
a) 1.3 b) Administration c) Governance Review d) Updated November 2016	Not complying with Regulation 59 of the LGPS Regulations 2013 (As amended) – preparing a Pension Administration Strategy encompassing the		15 Amber	Pension Committee & Strategic Director of Resources	Prepare a draft Pension Administration Strategy compliant with the Regulations for approval by the Pension		4 Amber	Risk Control (Mitigation) - Strategy signed off by Pension Committee on 18 December 2017

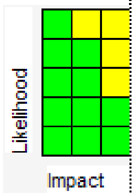
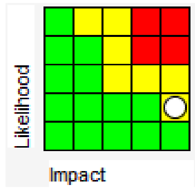
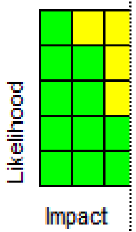
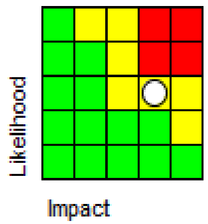
	Fund and admitted Employers (the Pension Administration Strategy in the Annual Report 2014/15 is not a Pension Administration Strategy as defined by the Regulations).				Committee.			
a) 1.4 b) Administration c) Governance Review d) Updated November 2016	Unsatisfactory administrative performance by admitted Employers resulting in non-compliance with CoP 14. Linked to external payroll providers for schools not treating pension administration issues in alignment with CoP 14.		12 Amber	Pension Committee & Strategic Director of Resources	Schools not using the Council's payroll provider could be subject to an annual charge under Regulation 69 of the LGPS Regulations 2013 to enable the Pension Fund to undertake additional work to ensure CoP 14 compliance.		9 Amber	Risk Control (Mitigation) action being implemented.
2. Communication Risks								
a) 2.1 b) Communication c) Governance Review d) Updated November 2016	The online information available for Active, Deferred and Pensioner members does not meet all of their needs.		9 Amber	Pension Committee & Strategic Director of Resources	Develop the provision of online information to provide a broad range of information relevant to		4 Green	Risk Control (Mitigation) action being implemented.

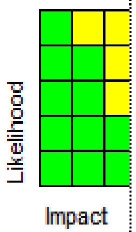
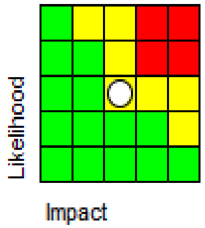
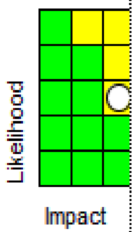
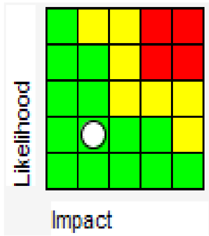
					Active, Deferred and Pensioner members of the Fund as well as an *Understanding Pensions* section and a *Benefits Modeller*.			
3. Funding Risks								
a) 3.1 b) Funding c) Annual Report 2015/16	Pensioners (actives, deferred and retired) living longer.		16 Red	Pension Committee & Strategic Director of Resources	Actuarial valuations take account of life expectancies with some allowance for future increases. Barnett Waddingham briefed the Pension Committee on the approach to the 2016 Valuation at the meeting held on 14 March 2016 From December 2018 the State Pension age for both men and women will start to increase to reach 66 by October 2020. Each rise in the average age at retirement saves pension costs.		9 Amber	Risk Control (Mitigation) action implemented.

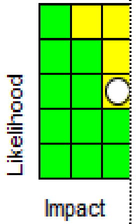
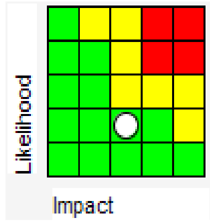
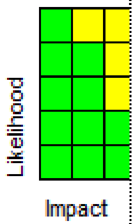
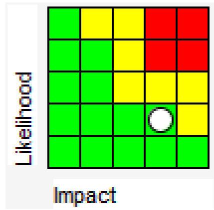
a) 3.2 b) Funding c) Annual Report 2015/16	Early retirements.		12 Amber	Pension Committee & Strategic Director of Resources	Non ill health early retirement costs: Employers are required to pay additional contributions wherever an employee retires before attaining their normal retirement age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Cumulative cost of ill health retirement: The Fund monitors each employer's experience. If the cumulative cost in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non-ill-health cases. If an employer provides satisfactory evidence of a current		6 Green	Risk Control (Mitigation) action implemented.

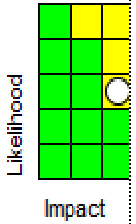
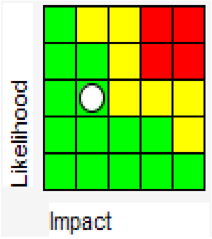
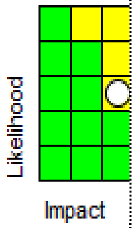
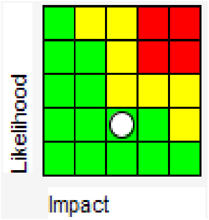
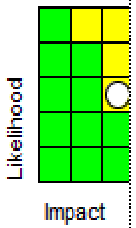
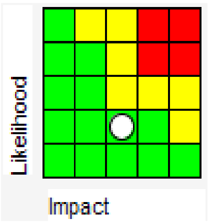
					insurance policy covering ill health early retirement strains, then: the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged.			
a) 3.3 b) Funding c) Pension Board	Admitted employers failing financially.		16 Red	Pension Committee & Strategic Director of Resources	The financial strength of admitted Employers is assessed prior to entry and monitored through officer dialogue (financial position, prospects and ability to pay the necessary employer contributions).		8 Green	Risk Control (Mitigation) action implemented.
4. Governance Risks								
a) 4.1 b) Governance c) Governance Review d) Updated November 2016	The 2014/15 Annual Report complies with the basic content requirements as set down in the LGPS Regulations, but it is not fully compliant with the detailed statutory guidance from CIPFA.		12 Amber	Pension Committee & Strategic Director of Resources	Changes made to 2015/16 Annual Report to comply with CIPFA best practice. Further enhancements to be implemented in 2016/17 report.		4 Green	Risk Control (Mitigation) action implemented.

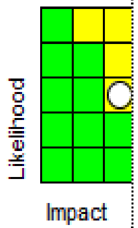
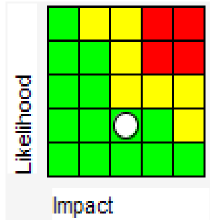
a) 4.2 b) Governance c) Governance Review	Not complying with the Pensions Regulator's guidance and having a formal breach (of the law) reporting procedure (pages 56 to 63 of Code of Practice 14 issued in April 2015.		15 Amber	Pension Committee & Strategic Director of Resources	A procedure relating to reporting breaches of the law has been prepared and was considered and approved by the Pension Committee on 20 March 17 and Pension Board on 26 April 17.		6 Green	Risk Control (Mitigation) action implemented.
a) 4.3 b) Governance c) Governance Review d) Updated November 2016	Not developing the Pension Committees knowledge and skills. The training provided to the Pension Committee is limited in scope focussing on investment issues.		9 Amber	Pension Committee & Strategic Director of Resources	Both Pension Committee and Pension Board have received a report on the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013)* and adopted the Policy Statement contained within the Code Training programme for both the committee and the Board has been developed and agreed		4 Green	Risk Control (Mitigation) action implemented.
a) 4.4 b) Governance c) Governance Review d) Updated November 2016	Training provided to the Pension Board may not provide the broad range of knowledge and understanding required by CoP 14.		9 Amber	Pension Committee & Strategic Director of Resources	Both Pension Committee and Pension Board have received a report on the CIPFA *Code of Practice on Public Sector Pensions*		4 Green	Risk Control (Mitigation) action implemented.

					Finance Knowledge and Skills (2013) and adopted the Policy Statement contained within the Code A training programme for both the Committee and the Board has been agreed .			
5. Investment Risks								
a) 5.1 b) Investment c) Investment Strategy Review d) Entry updated November 2016	Inappropriate long-term investment strategy.		25 Red	Pension Committee & Strategic Director of Resources	The current Investment Strategy is being reviewed following the results of the 2016 Triennial Actuarial Valuation. This work began with a session held for pension committee members to identify a range of investment beliefs that will underpin the investment strategy.		10 Amber	Risk Control (Mitigation) action being implemented.
a) 5.2 b) Investment c) Triennial Valuation	Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.		16 Red	Pension Committee & Strategic Director of Resources	Progress is analysed as part of the triennial valuations with inter-valuation roll-forward of liabilities between formal valuations.		12 Amber	Risk Control (Mitigation) action implemented.

a) 5.3 b) Investment c) Quarterly reporting to the Pension Committee	Active investment manager under-performance		16 Red	Pension Committee & Strategic Director of Resources	The investment portfolio is split between 12 specialist investment managers. Each manager has been set a specific benchmark, as well as a performance target against which they will be measured. Quarterly reporting to the Pension Committee draws on a review of investment performance by an independent measurement service.		9 Amber	Risk Control (Mitigation) action implemented.
a) 5.4 b) Investment c) Governance Review d) Updated November 2016	Not complying with Regulation 12(3) of the Local Government Pension Scheme (management and Investment Fund) regulations 2009. The Statement of Investment Principles shows where the Fund is compliant with the Myners Six Principles, but not the extent of the compliance as required by Regulation 12(3).		9 Amber	Pension Committee & Strategic Director of Resources	Investment Strategy Statement agreed by Pension Committee on 20 March 17 and posted on Council website by 1 April 17. Undertake a detailed review against the *key issues to consider section* relevant to each of the Six Myners Principles.		4 Green	Risk Control (Mitigation) action being implemented.

6. Employer Risk								
a) 6.1 b) Employer c) Governance Review d) New entry November 2016	Council unaware of structural changes in an employer's membership (e.g. large fall in employee members; large number of retirements). Could lead to incorrect information being used to make decisions in regards to the employer leading to an inappropriate contribution rate being used.		9 Amber	Strategic Director of Resources	Regular communication with employers. Employers must advise Council of likely significant changes as part of triennial valuation process. Monitoring of monthly contributions to identify for example falling employee numbers.		6 Green	Risk Control (mitigation) action implemented.
a) 6.2 b) Employer c) Governance d) New entry November 2016	Council not advised of an employer closing to new entrants which could lead to incorrect information being used to make decisions in regards to the employer leading to an inappropriate contribution rate being used.		12 Amber	Strategic Director of Resources	Regular communication with employers. Employer must advise Council of planned changes to access to scheme.		8 Green	Risk Control (mitigation) action implemented.
7. Resource & Skill Risk								

a) 7.1 b) Resource & Skill c) Governance d) New entry November 2016	A key member of staff leaves the organisation and there is only a limited market from which to seek their replacement		9 Amber	Strategic Director of Resources	Maintain a system of staff cover; succession planning and development Increase breadth of expertise throughout internal team. Maintain relationships with external providers. Finance Shared Service with Kingston should provide more resilience.		6 Green	Risk Control (mitigation) action implemented
a) 7.2 b) Resource & Skill c) Governance d) New entry November 2016	Lack of expertise / resources of officers involved in the Pension Fund		9 Amber	Strategic Director of Resources	Regular performance appraisals and training plans in place. On the job training. Attendance at regular conferences and courses. Finance Shared Service with Kingston should provide more resilience.		6 Green	Risk Control (mitigation) action implemented
a) 7.3 b) Resource & Skill c) Governance d) New entry November 2016	Insufficient knowledge of pension fund committee and board members leading to inappropriate decision being taken at committee meetings		9 Amber	Pension Committee & Board & Strategic Director Resources	Implementation of training programme for members. Ongoing assessment of any development needs. Application of CIPFA Knowledge and		6 Green	Risk Control (mitigation) action being implemented

					Skills Framework.			
8.Reputational Risk								
a) 8.1 b) Reputational c) Governance d) New entry November 2016	Actions damage the reputation of the fund which may impact on participation rates and investment strategies		9 Amber	Pension Committee & Strategic Director Resources	Good governance, open communication. Use of LAPFF to engage with shareholder companies to encourage good governance.		6 Green	Risk Control (mitigation) action implemented