

# London Borough of Sutton

## Pension Fund Annual Report 2023/24

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# 1. INTRODUCTIONS



## PENSION COMMITTEE CHAIR'S INTRODUCTION

I am pleased to present the Pension Fund Annual Report for 2023/24. This report brings together the Fund's financial statements with a review of financial and investment performance and the work of the shared pensions administration service, as well as the Fund's key policy documents.

During 2023/24 the Fund has seen the value of its net assets increase by 14% (£113m) to £924m. This significantly improved position is very welcome, particularly following the challenges faced by the Fund's investments during the previous year. 2023/24 marked a much needed comeback for equity and bond market performance, which benefited the Fund's allocations in these asset classes.

At the end of March 2024, 77% of the Fund's investment portfolio was pooled in London CIV funds. This puts the Fund in a leading position on pooling compared to the other 31 London funds and also in terms of meeting the Governments developing expectations on the pooling of LGPS assets.

The performance of the Fund's investments steadily improved over the year and by March 2024 the one year return was an impressive 13.6% against a benchmark of 12.2%. This also compares very favourably with the average one year return across all Local Government Pension Scheme (LGPS) funds coming in at 9.2%. I am particularly proud that the Fund has finished third in the LGPS space for performance.

A major focus for the Fund's Investment Strategy is on responsible investing and with this in mind significant progress was made. The Fund not only made an asset allocation into impact, but also delivered in terms of its implementation. This meant selecting two additional funds from the London CIV pool designed with the intention to generate beneficial social or environmental impacts, alongside a financial return. As well as sitting in the Impact investing space, these funds are also expected to help meet the Government's desire to increase LGPS investment in UK growth assets.

A full triennial valuation of the Fund (undertaken in 2022) established a funding level of 101%, a significant increase on the 90% funding level from the previous valuation. The value of the Fund's assets now exceeds the value of its liabilities, primarily as a result of the Fund's strong investment returns. This improved funding level, which has continued rising, has allowed the Fund to take a risk reduction approach to investing and increase its focus on areas that are of strategic importance to the Fund.

The role of administering the Fund is discharged by the shared Sutton and Kingston Pensions Administration Service. At the end of March 2024 membership of the Fund stood at approximately 18,500 across 62 employers. A significant focus for the team during 2023/24 has been on improving communications between scheme employers and the administering authority, with the aim of improving the overall experience for members. A greater emphasis has been placed on using technology to enhance services, improve accessibility and broaden inclusion. The use of digital communication through the secure member portal, Pensions Online, is a vital part of this and its use will continue to develop.

A very successful virtual Sutton and Kingston Pension Fund Employer Forum was held in February 2024. This event was open to all employers in both pension funds and provided a comprehensive update on all the relevant LGPS topics for employers to be aware of. Employers can also now expect to receive quarterly newsletters and have access to a range of additional resources, as well as the provision of training events, as and when required.

Good progress was made during the year on key ongoing projects, such as the Guaranteed Minimum Pension Reconciliation Project and McCloud Remedy Project. The Fund continues to proactively monitor its cyber security measures in accordance with its Cyber Security Policy and this will be an area of increasing focus in the year to come. A lot of work has been carried out on data improvements, which puts the Fund in a well prepared position ahead of the next triennial valuation.

The Fund continues to demonstrate that it is in a strong position to face future challenges and changes that will no doubt impact the LGPS over the medium term.

**Councillor Cryss Mennaceur, *Chair of the Pension Committee***



## PENSION BOARD CHAIR'S INTRODUCTION

I am pleased to join Councillor Mennaceur in presenting the Pension Fund Annual Report for 2023/24.

The Pension Board helps the Fund comply with the Local Government Pension Scheme (LGPS) rules, pensions legislation and guidance from The Pensions Regulator. In its operation, the Board seeks to complement the Pensions Committee and aims to add value to the Fund. Some of the significant ways in which it does this includes providing scrutiny of Fund's investment performance, asset allocation and compliance with its Responsible Investment Policy and providing detailed scrutiny of administration performance, along with recommendations on the reporting of these areas to enable greater understanding and future challenge by Board and Committee members.

During 2023/24, the Board gave particular focus to areas of administration performance that have faced significant pressures in recent years. This included reviewing the progress of data and process improvement plans and performance against targets, providing challenge and support in order to drive forward progress in these areas. It has been essential to find the balance between challenging and supporting the senior team who are grappling with higher service requirements and a number of additional one-off pieces of work in an area where recruitment and retention of experienced staff remains difficult.

The Board continued to receive update reports on the progress of the McCloud Remedy project and GMP Reconciliation Project. Scrutiny was also given to quarterly investment performance returns, the Fund's cashflow, budgets and annual report and accounts. Across all of these areas, the Board fulfilled its role by raising questions, making observations and suggestions, providing challenge and also support and encouragement.

The Board reviewed its terms of reference during the year, which generated some changes around voting rights and removed the position of the vice chair.

I am also pleased to be able to add that I have been reappointed as Chair of the Board for a further four years, commencing in April 2024 and I very much look forward to continuing to fulfil this role.

**Jonathan Bunt, *Chair of the Pension Board***

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## 2. OVERALL FUND MANAGEMENT

### Scheme management and advisers

#### **Administering Authority**

London Borough of Sutton

#### **Supporting Officers**

Richard Simpson, Strategic Director – Resources (Lead Officer for the Pension Fund)

Victoria Goddard, Assistant Director, Finance

Andrien Meyers, Head of Pensions Investments

Bradley Peyton, Head of Insurance and Pensions Administration (up to December 2023)

Nick Weaver, Head of Pensions Administration (from December 2023)

Lisa Doswell, Pensions Finance and Investment Manager

Kirsty Clubb, Senior Finance Lead - Pensions Investments

Tom Taylor, Pensions Team Leader (Employer Liaison and Governance)

#### **Scheme Administrators**

Sutton and Kingston Shared Service

#### **Asset Pool**

London Collective Investment Vehicle (LCIV)

<b>Investment Managers:</b>		
<b>Equities (Active)</b>	<b>Equities (Passive)</b>	<b>Infrastructure</b>
Newton (LCIV)	Legal & General	Partners Group
RBC (LCIV)	State Street (LCIV)	BlackRock, Stonepeak, Quinbrook, and Foresight (LCIV)
<b>Property</b>	<b>Fixed Income</b>	<b>Diversified Growth</b>
BlackRock	Legal & General	Baillie Gifford (LCIV)
LaSalle		
Invesco		
<b>Impact</b>	<b>Multi Asset Credit</b>	<b>Private Debt</b>
CBRE & Octopus (LCIV)	M&G Alpha Opportunities	Pemberton & Churchill
LPPI (LCIV)	CQS & PIMCO (LCIV)	
<b>Investment Adviser</b>	<b>Benefits Consultant</b>	<b>Actuary</b>
Mercer	AON	Hymans
<b>Performance Monitoring</b>	<b>Custodian</b>	<b>Auditor</b>
Mercer and PIRC	Northern Trust	KPMG
<b>Legal Advisor</b>	<b>AVC Providers</b>	<b>Bank</b>
South London Legal Partnership	Clerical Medical and Utmost	Lloyds Bank



### 3. FINANCIAL PERFORMANCE

#### Fund Income and Expenditure From 2019/20 to 2023/24

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

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Contributions receivable	39,099	44,080	36,896	37,201	49,086
Benefits payable	(32,925)	(33,243)	(50,632)	(35,197)	(38,039)
<b>Net payment to/(from) the Fund</b>	<b>6,174</b>	<b>10,837</b>	<b>(13,736)</b>	<b>2,004</b>	<b>11,047</b>
Fund management expenses	(6,015)	(6,510)	(6,571)	(5,757)	(6,096)
Net returns on investment	9,354	11,785	9,344	15,383	16,966
Change in market value	(33,264)	156,201	53,419	(55,888)	91,525
<b>Net (decrease)/increase in the Fund</b>	<b>(23,751)</b>	<b>172,313</b>	<b>42,456</b>	<b>(44,258)</b>	<b>113,442</b>

The above table shows a net increase in the Fund's value of £260m over the past 5 years. This is largely attributed to the change in market value of £212m over this period. Contributions to the Fund have tended to exceed benefits payable on an annual basis, however this could change going forward, as the number of retirees increase. 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

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
<b>Contributions Receivable</b>					
- Members	6,555	7,006	7,562	8,184	9,032
- Employers	25,979	33,760	25,669	25,156	33,069
- Transfers in	6,565	3,314	3,665	3,861	6,985
<b>Total Contributions</b>	<b>39,099</b>	<b>44,080</b>	<b>36,896</b>	<b>37,201</b>	<b>49,086</b>
<b>Benefits Payable</b>					
- Pensions	(22,926)	(23,659)	(26,221)	(27,680)	(30,397)
- Lump sum retirements and death benefits	(4,587)	(3,910)	(3,972)	(4,455)	(4,257)
- Transfers out	(5,258)	(5,584)	(20,281)	(2,973)	(3,276)
- Refunds	(154)	(90)	(158)	(89)	(109)
<b>Total Benefits Payable</b>	<b>(32,925)</b>	<b>(33,243)</b>	<b>(50,632)</b>	<b>(35,197)</b>	<b>(38,039)</b>
<b>Net Payment to / (from) the Fund</b>	<b>6,174</b>	<b>10,837</b>	<b>(13,736)</b>	<b>2,004</b>	<b>11,047</b>

As shown in the table above, the value of transfers in for 2023/24 was £6,985k (2022/23: £3,861k), which largely consists of small individual transfers into the Pension Fund from other organisations. The large increase in transfers in during 2023/24 is due to significant progress being made during the year in clearing the backlog of cases in this area.

Transfers out of the Fund during 2023/24 was £3,276k (2022/23: £2,973k). The figure of £20,281k in 2021/22 included a bulk transfer of £15m to Croydon Council for the South London Waste Partnership.

## 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.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
<b>Administration Cost</b>					
Internal support costs	524	719	921	1,063	1,103
Other	291	103	117	2	(23)
<b>Sub-total Administration Costs</b>	<b>815</b>	<b>822</b>	<b>1,038</b>	<b>1,065</b>	<b>1,080</b>
<b>Investment Management Expenses</b>					
Management fees (including performance fees)	3,423	4,049	4,301	4,354	4,583
Transaction costs	1,421	1,401	837	145	240
Custodian	37	38	106	83	8
<b>Sub-total Investment Management Expenses</b>	<b>4,881</b>	<b>5,488</b>	<b>5,244</b>	<b>4,582</b>	<b>4,831</b>
<b>Oversight and Governance Costs</b>					
Actuarial fees	113	46	17	37	31
External audit	16	34	35	42	69
Consultancy fees	84	83	52	4	37

Other	106	37	185	27	48
<b>Sub-total Oversight &amp; Governance Costs</b>	<b>320</b>	<b>200</b>	<b>289</b>	<b>110</b>	<b>185</b>
<b>Total Fund Management Expenses</b>	<b>6,016</b>	<b>6,510</b>	<b>6,571</b>	<b>5,757</b>	<b>6,096</b>

Investment management expenses are based on a percentage of the market value of their portfolio and therefore increase as the Fund's value increases. The Fund invests in pooled investment vehicles, for which the majority do not separately invoice their fees; rather the fees are taken directly from the asset value of the fund. From 2022/23 onwards, the investment management fees only include charges that the fund has actually incurred and not notional costs that are not borne by the Fund.

Overall, in 2023/24 the cost of managing the Fund represents approximately 0.7% (2022/23: 0.7%) of the value of the Fund. The absolute cost of managing the fund increased during the year by £340k. This increase is mainly due to higher transaction costs caused by some restructuring of investments and increased administration costs due to net staff increases

### Costs per member

	2019/20	2020/21	2021/22	2022/23	2023/24
Membership Number	14,761	15,094	16,769	17,494	18,528
Cost per member					
Administration costs	55	54	62	61	58
Investment Management costs	331	364	313	262	261
Oversight and Governance costs	22	13	17	6	10
<b>Total Fund costs per member</b>	<b>408</b>	<b>432</b>	<b>392</b>	<b>329</b>	<b>329</b>

## Current Assets / Liabilities

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Current Assets	7,998	6,755	15,216	21,097	17,096
Current Liabilities	(560)	(2,129)	(18,034)	(18,130)	(2,151)
<b>Net Current Assets</b>	<b>7,438</b>	<b>4,626</b>	<b>(2,818)</b>	<b>2,967</b>	<b>14,945</b>

Current assets are comprised of cash held in the Fund's bank account and income due to the Fund at the end of each year from admitted body contributions, or pending transfers in from other pension funds.

Current liabilities include fund expenses owed at the year end. The balances at 31 March 2022 and 31 March 2023 of £18,034k and £18,130k respectively, included approximately £15m for the bulk transfer to Croydon Council for the South London Waste Partnership.

## 4. INVESTMENT POLICY AND PERFORMANCE REPORTING

### Investment Background 2023-24

#### Macro

The second calendar quarter of 2023 saw the orderly resolution of the second largest bank failure in US history and further distress among US regional banks, ongoing economic resilience, declining inflation, an equity rally led by seven stocks, and increased geopolitical tensions, including an attempted coup in Russia. Developed market central bank actions were mixed over the quarter, with some deciding to pause hiking interest rates, and others continuing to increase policy rates, but rhetoric remained hawkish. Headline inflation continued to slow and core inflation fell in most regions apart from the UK. Inflation expectations also continued to decline over the quarter.

Developed market central bank actions continued to be mixed in Q3 2023, with some deciding to pause hiking interest rates, and others continuing to increase policy rates. Headline inflation continued to slow and core inflation fell in most regions. Inflation expectations also continued to decline over the quarter. US GDP growth estimates appear to have accelerated in the second quarter of 2023. China's economy expanded, largely due to favourable base effects but overall, the momentum has been weak, indicating subdued demand. The Japanese economy saw the strongest growth since the last quarter of 2020, on the back of strong exports growth. GDP growth has been modest for the Eurozone in Q2 2023. UK GDP is estimated to have increased in the second quarter of 2023.

The fourth quarter of 2023 started off with low market expectations owing to high long-term interest rates and renewed geopolitical tensions in the Middle East. Markets reached their lows near the end of October due to risk-off sentiment. However, in November, slowing inflation in the US and other regions raised hopes that interest rates may have peaked, boosting investor confidence. Over the quarter, the US Federal Reserve kept rates unchanged, but shifted towards a dovish tone. Inflation expectations also continued to decline over the quarter. US GDP growth accelerated in the third quarter of 2023. China's economy grew 4.9% (year-on-year) in Q3. Chinese policy makers remain committed to supporting the Chinese economy. Quarter on quarter GDP growth contracted in the eurozone in Q3 2023. UK GDP growth is estimated to have declined 0.1% in the third quarter of 2023.

The first quarter of 2024 was characterised by a repricing of interest rate expectations, especially for developed market (DM) central banks. The timing of potential rate cuts by the US Federal Reserve, ECB and BOE were pushed back to the second half of 2024 as growth and inflation data surprised to the upside. Despite rising bond yields, equity markets continued to rally driven by AI enthusiasm and strong corporate earnings. Japanese equities outperformed its peers on the back of solid earnings growth and a weaker yen. Emerging Market equities were held back by weakness in China, although Chinese equities did rally in the second half of the quarter.

## **Equities**

On a year-on-year basis to 31 March 2024, Sterling returns for developed market equities were positive at 22.5%. Sterling's depreciation increased equity returns for unhedged UK investors. Emerging markets (EMs) were also positive (6.2%) but underperformed relative to global equities.

As we entered Q2 and Q3 2023, equity markets in the US largely looked through the regional banking distress but the rally in the so-called magnificent seven (e.g. Nvidia & Microsoft) faded somewhat. Within EM, the Chinese recovery underwhelmed, sentiment declined, and the property sector stresses remained. Global risk-off sentiment also had an impact on EM equities. In Q4, markets were positive, supported by expectations that interest rate cuts may be approaching and expectations of a global soft landing. Within equities, developed markets outperformed emerging markets. Overall EM equities were strong, but EM is still negatively impacted by China, which continues to underperform due to ongoing stresses in the property sector. In Q1 2024, markets were positive driven by continued speculation surrounding artificial intelligence (AI) and broadly positive corporate earnings. Japanese equities also continued to rally on the back of stronger corporate earnings linked to higher nominal growth. Within equities, developed markets (DM) continued to outperform emerging markets (EM). DM equities continued to rally despite upside surprises in inflation data and rising bond yields. Emerging markets equities saw positive returns driven by a rebound in China, which was supported by better-than-expected activity data, fiscal stimulus, and looser monetary policy. South Korea and Taiwan were also supportive as Korea benefited from the announcement of tax reform proposals while in Taiwan, enthusiasm for AI continued to boost the tech sector. Saudi Arabia also performed strongly as oil prices rose over the quarter.

Overall, the positive momentum throughout the year has been driven by lower inflation data, positive earnings, and economic activity data.

## **Bonds**

On a year-on-year basis to 28 March 2024, UK government bond returns were flat, while returns for UK corporate bonds were 6.1%. Inflation-linked bonds performed poorly over the year with negative returns.

During the 12 months to March 2024, global sovereign bond yields moved higher as central banks tightened monetary policy to combat rising inflation. The Bank of England (BOE) continued to hike rates in the second and third quarter of 2023 as core inflation remained sticky and labour market showed no signs of cooling. The BOE raised its policy rate to 5.25% by September. In Q4 2023 and Q1 2024, the BOE did not raise rates but left policy in restrictive territory. UK headline inflation eased as low as 3.4% in February 2024 from a peak of 11% in October 2022. Over the 12-month period to March 2024, the UK 10-year gilt yield rose from 3.49% to 3.93% as the outlook for the UK economy improved.

UK real yields rose during the 12-month period under review. Yields began to rise through Q2 and Q3 2023 from near zero levels to as high as 0.75%, before easing to 0.3% by end-March 2024. Market-based measures of inflation, as measured by the 10-year break-even inflation rate, rose marginally by 7bps over the 12-month period, reaching 3.65%. For context, the multi-decade high for 10-year UK breakeven inflation was in April 2022, when market-based measures of inflation expectations were 4.45%.

Both investment grade and high yield credit spreads tightened over the 12-month period to March 2024. Lower rated credit tightening more than for higher rated credit.

## **Property**

As of April 2024, the UK property market has seen the strongest value corrections of all major real estate markets. Optimism is beginning to return, but tight lending conditions and an uncertain economic outlook contribute to the continued act as headwinds. In addition, the UK investor base is going through considerable consolidation as many UK Corporate DB pension funds look to decrease their property allocations. As a result, sellers outnumber buyers for traditional long-hold properties.

The MSCI UK Monthly Property Index reported a negative gross total return of -0.1% for the 3-month period ending in February 2024. The industrial and residential sectors continued to outperform, with returns of 0.6% and 0.3% respectively, consistent with the preceding three months. The retail sector saw positive returns for the three months, due to the relatively high income returns, while offices remained the weakest performing sector. During Q4 2024, the MSCI/AREF UK Quarterly Fund Index



recorded a net total return of -1.1%. Long Income funds underperformed compared to the Balanced and Specialist funds during 2023 as increased transaction activity weighed on performance as a result of raising cash to meet redemptions.

Investment volumes averaged £3.4 billion per month in 2023. This compares to an average of £5.6 billion per month during 2022. The third and fourth quarter of 2023 both recorded transactions of just under £10 billion. Year-on-year volumes remain subdued, with volumes in 2023 c.40% lower than in 2022, but with Q4 volumes c.22% lower than the year before. Buying activity was strongest by value in the office sector in 2023 but fell the most, with volumes in the industrial sector coming close to that of offices. The retail sector saw the smallest drop in transaction volumes in 2023, coming off a relatively low base.

## **Investment Markets**

### **Equity Markets**

At a global level, developed markets as measured by the FTSE World index, returned 22.5%. Meanwhile, a return of 6.2% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 13.8% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned 8.4%. The FTSE USA index returned 27.3% while the FTSE Japan index returned 22.3%. The considerable outperformance of UK equities is attributed to the index's large exposure to oil, gas and basic materials.

Equity market total return figures are in Sterling terms over the 12-month period to 31 March 2024.

### **Bonds**

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returns were flat, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -4.6% over the year. Yields at the longer end of the nominal yield curve rose less than the shorter end but this was offset by the duration impact on the longer-dated gilt returns. The yield for the FTSE Gilts All Stocks index rose over the year from 3.7% to 4.2% while the Over 15 Year index yield rose from 3.8% to 4.3%.

The FTSE All Stocks Index-Linked Gilts index returned -5.0% with the corresponding over 15-year index exhibiting a return of -11.9%. The combination of falling inflation expectations and increasing nominal yields led to a sharp rise in real yields and underperformance of index-linked gilts relative to nominal gilts.

Corporate debt as measured by the ICE Bank of America Merrill Lynch Sterling Non-Gilts index returned 6.1%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 March 2024.

### **Property**

Over the 12-month period to 31 March 2024, the MSCI UK All Property Index returned 0.3% in Sterling terms.

### **Commodities**

The price of Brent Crude Oil rose 9.6% from \$79.76 to \$87.42 per barrel over the one-year period. Over the same period, the price of Gold rose 12.0% from \$ 1976.50 per troy ounce to \$2214.30.

The S&P GSCI Commodity Spot Index returned -0.7% over the one-year period to 31 March 2024 in Sterling terms.

### **Currencies**

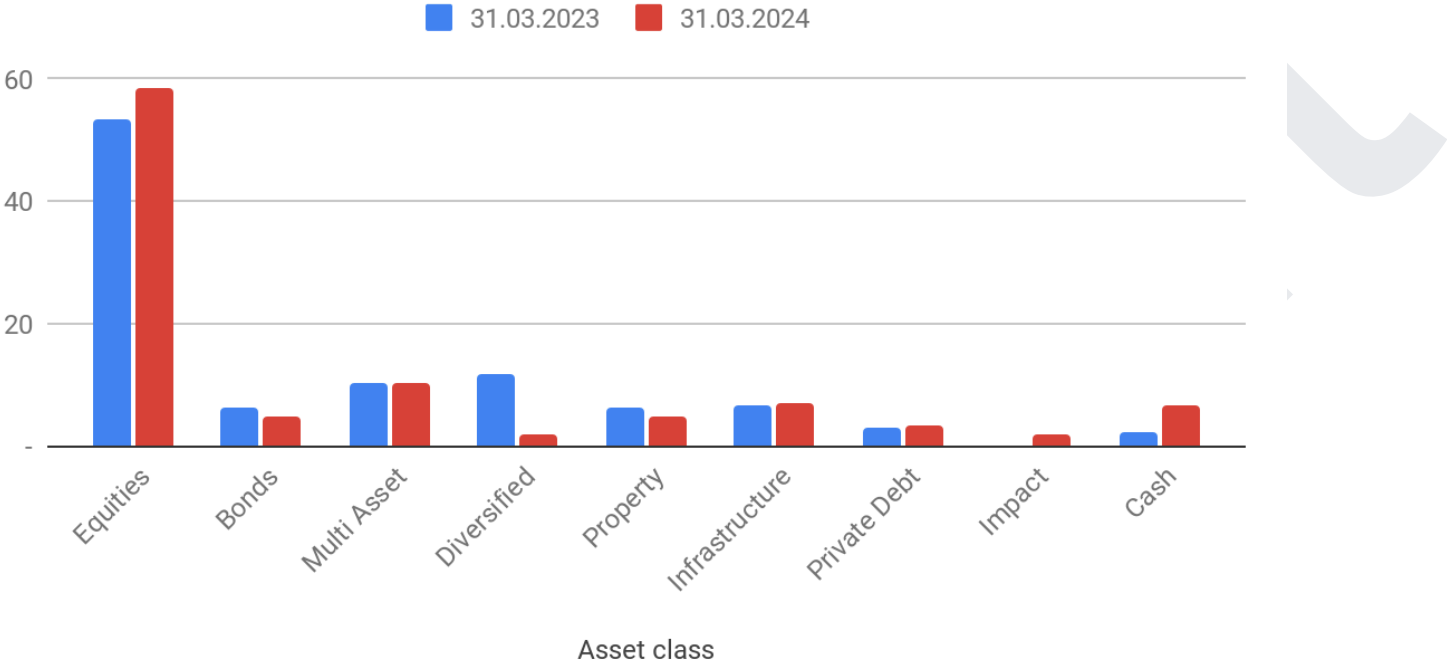
Over the 12-month period to 31 March 2024, Sterling appreciated by 2.2% against the US Dollar from \$1.24 to \$1.26. Sterling appreciated by 16.2% against the Yen from ¥ 164.56 to ¥ 191.19. Sterling appreciated against the Euro by 2.8% from €1.14 to €1.170 per the same period.

## Asset Allocation and Manager Breakdown

The table below shows the approved target allocations of individual asset classes against the actual allocations for the two most recent years ending 31st March. The Committee agreed a revised asset allocation for 2023/24 onwards at its March 2023 meeting, enabling the Fund to continue its de-risking approach as the Fund had in excess of a 100% Funding level. The revised allocation also reflects the need for more income generating assets, such as impact investments, property, infrastructure and multi asset credit, as the Fund matures and incorporates its responsible investment objectives. In addition, wherever possible, the preference has been to select pooled funds available via the London CIV, unless there is a compelling reason not to.

Asset class	Actual Asset Allocation	Actual Asset Allocation	Strategic Asset Allocation	Variance from Strategic Asset Allocation
	%	%	%	%
	31.03.2023	31.03.2024	31.03.2024	31.03.2024
Equities	54	59	50	9
Bonds	6	5	6	(1)
Multi Asset Credit	10	10	9	1
Diversified Growth	12	2	-	2
Property	6	5	10	(5)
Infrastructure	7	7	10	(3)
Private Debt	3	3	5	(2)
Impact	-	2	10	(8)
Cash	2	7	-	7
	<b>100</b>	<b>100</b>	<b>100</b>	

# Asset Allocation 31 March



The market value of investment assets under the management of each fund manager as at 31 March 2023 and 31 March 2024 is shown in the table below. During 2023/24, the mandate with global equity fund Harding Loevner was terminated. The resulting funds were transferred to an existing mandate with the Legal and General Future World Fund and a new mandate with the LCIV Passive Equity Progressive Paris Aligned Fund. During 2023/24 the Fund’s allocation to diversified growth was removed and replaced with a new allocation to Impact funds. This resulted in the termination of a diversified growth fund mandate with the LCIV Global Total Return Fund and cash was drawn from the LCIV Diversified Growth Fund in order to fund new mandates with two Impact funds; LCIV Housing Fund and the LCIV London Fund. The remaining diversified growth fund was also used to fund capital calls into the existing infrastructure and private debt funds.

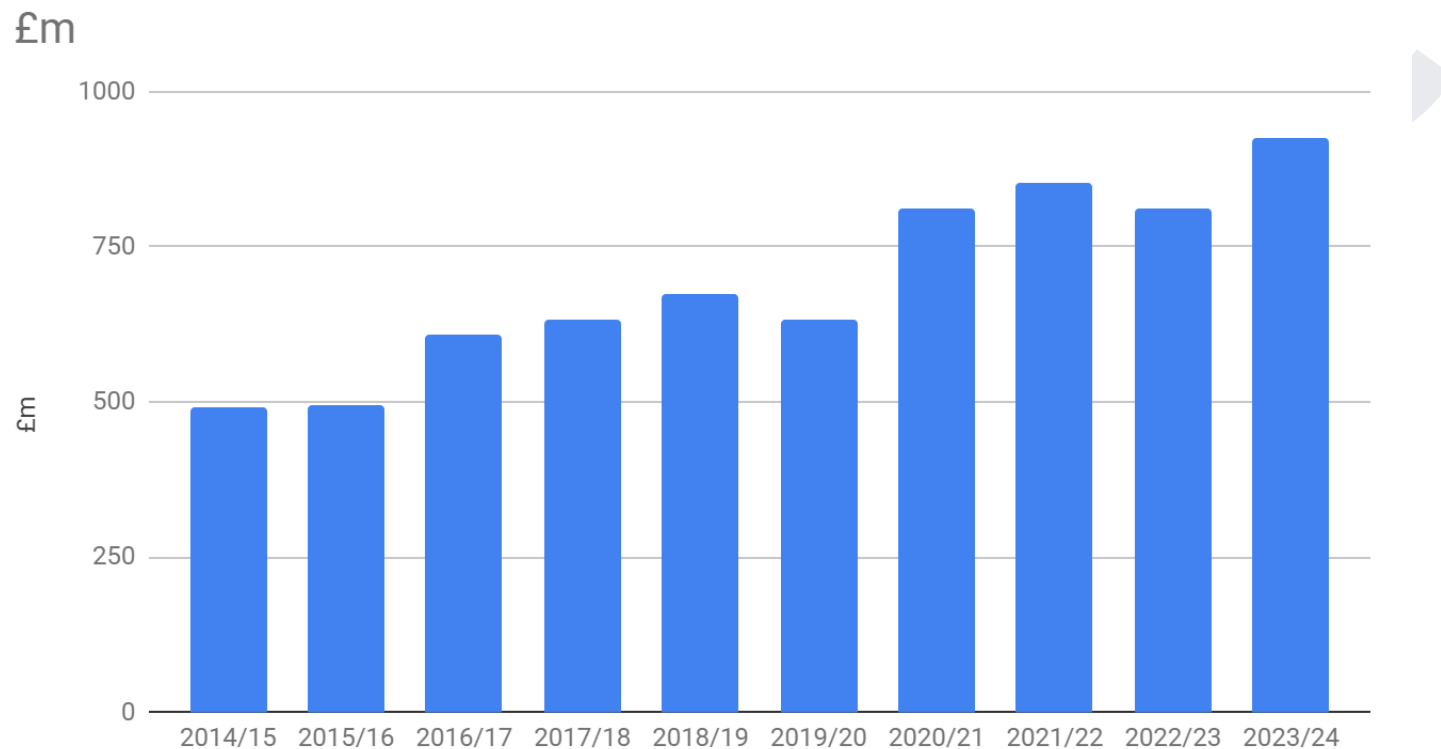
Fund Manager	Market Value at 31/03/23 £'000	Market Value at 31/03/24 £'000
<b>Investments managed by London Collective Investment Vehicle</b>	<b>512,119</b>	<b>711,113</b>
LCIV Global Equity Fund - Newton	104,074	130,377
LCIV Sustainable Equity Fund - RBC	112,319	130,096
LCIV Passive Equity Progressive Paris Aligned Fund - State Street	-	124,680
Legal & General Future World Global Equity Index Fund	73,675	152,647
LCIV Global Total Return Fund - Pyrford	48,159	-
LCIV Diversified Growth Fund - Baillie Gifford	47,502	24,038
LCIV Multi Asset Credit Fund - CQS & PIMCO	28,406	31,678
Legal & General Over 5 Year Index Linked Gilts Fund	50,531	47,081
LCIV Private Debt Fund -Pemberton & Churchill	27,533	31,238
LCIV Renewable Infrastructure - BlackRock, Stonepeak, Quinbrook & Foresight	19,920	27,234
LCIV The London Fund - LPPI	-	11,944
LCIV UK Housing Fund - CBRE, Octopus	-	100
<b>Investments managed outside of London Collective Investment Vehicle</b>	<b>295,228</b>	<b>147,417</b>
Harding Loevner Funds Plc Global Equity Fund	151,894	-
M&G Alpha Opportunities Fund	57,734	65,011
LaSalle Investors UK Real Estate Fund of Funds	11,417	9,737
BlackRock UK Property Fund	21,637	19,221
Invesco Real Estate UK Residential Fund SCSp	16,658	16,075
Partners Group Direct & Global 2015 S.C.A., SICAV-SIF & Global 2012 S.C.A., SICAR	35,888	37,373
Partners Group - Direct Infrastructure III (EUR) S.C.A., SICAV-RAIF		
<b>Total</b>	<b>807,347</b>	<b>858,530</b>

Each fund manager has been set a specific benchmark and some have also been set a performance target against which they will be measured. This is shown in the table below.

<b>Investment Fund</b>	<b>Benchmark</b>	<b>Performance Target</b>
LCIV Global Equity	MSCI AC World Index	Index +1.5% p.a. (net of fees)
LCIV Sustainable Equity	MSCI World (NDR) Index	Index +2% p.a. (net of fees)
LCIV Passive Equity Progressive Paris-Aligned (PEPPA)	S&P Developed Ex-Korea LargeMidCap Net Zero 2050 Paris-Aligned ESG Index TR (GBP)	-
Legal & General Future World Equity	Solactive L&G ESG Global Markets Net	To match the benchmark
Legal & General Index Linked Over 5 Years	FTSE A Over 5 Years Index-Linked Gilts Index	To match the benchmark
M&G Alpha Opportunities	SONIA	SONIA +3-5% p.a. (gross of fees)
LCIV Multi Asset Credit (MAC)	SONIA	SONIA +4.5% p.a. (net of fees)
LCIV Diversified Growth	UK Base Rate	UK Base Rate +3.5% p.a. (net of fees)
BlackRock	MSCI UK Pooled Property Funds Index	-
LaSalle	MSCI All Property Funds Median	-
Invesco	Absolute 6% p.a.	-
Partners Group 2012 Direct	+7% to +11% p.a. (net of fees)	-
Partners Group 2015 Direct	+8% to +12% p.a. (net of fees)	-
Partners Group 2015 Global	+7% to +11% p.a. (net of fees)	-
Partners Group III Direct	+8% to +12% p.a. (net of fees)	-
LCIV Private Debt	IRR+6% to +8% p.a. (net of fees)	-
LCIV London Fund	CPI +3% p.a. (net of fees)	-
LCIV UK Housing Fund	IRR+5% to 7% p.a. (net of fees)	-
LCIV Renewable Infrastructure Fund	IRR+7% to +10% p.a. (net of fees)	-

## FUND VALUE OVER 10 YEARS

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



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

## Performance

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

Performance	1 year	3 years	5 years
Fund	13.6	4.9	7.1
Benchmark	12.2	6.4	7.5
Relative return	1.4	(1.5)	(0.4)

Investment Performance over 1, 3 and 5 years



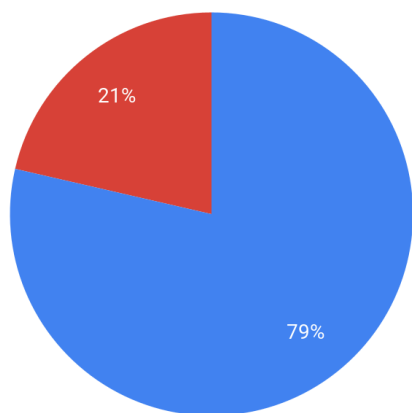
At total fund level, as at March 2024 the Fund overperformed the benchmark by 1.4% over the past year, underperformed by 1.5% per annum over three years and underperformed by 0.4% per annum over five years.

Analysis of the Universe of LGPS funds carried out by the performance monitoring service PIRC, has showed that average fund returns delivered 9.2% (1 year), 5.3% (3 years), and 6.5% (5 years).



	1 year performance			3 year performance			5 year performance		
Investment Fund	Fund Return	Benchmark Return	Relative return	Fund Return	Benchmark Return	Relative return	Fund Return	Benchmark Return	Relative return
<b>London Collective Investment Vehicle:</b>									
LCIV Global Equity	25.3	21.1	4.2	11.6	10.7	0.9	13.2	12.1	1.1
LCIV Sustainable Equity	15.8	21.5	(5.7)	-	-	-	-	-	-
LCIV Passive Equity Progressive Paris-Aligned	-	-	-	-	-	-	-	-	-
Legal & General - Index Linked	(6.8)	(6.8)	-	(12.1)	(12.1)	-	(6.5)	(6.5)	-
Legal & General - Global Equity	21.3	20.4	0.9	-	-	-	-	-	-
LCIV Diversified Growth Fund	3.4	8.5	(5.1)	(0.7)	6.0	(6.7)	1.0	5.2	(4.2)
LCIV Multi Asset Credit Fund	11.4	8.9	2.5	-	-	-	-	-	-
LCIV Private Debt Fund	7.4	2.9	4.5	-	-	-	-	-	-
LCIV Renewable Infrastructure	(2.3)	3.4	(5.7)	-	-	-	-	-	-
LCIV UK Housing Fund	-	-	-	-	-	-	-	-	-
LCIV London Fund	-	-	-	-	-	-	-	-	-
<b>Other Managers:</b>									
M&G Alpha Opportunities	12.2	8.2	4.0	5.0	5.5	(0.5)	5.5	6.7	(1.2)
LaSalle	(0.6)	(0.1)	(0.5)	0.8	1.6	(0.8)	(0.5)	1.3	(1.8)
BlackRock	(3.3)	(1.1)	(2.2)	(0.4)	0.8	(1.2)	0.3	0.3	-
Invesco	(3.5)	7.0	(10.5)	1.8	7.7	(5.9)	1.9	7.8	(5.9)
Partners Group Global 2012 - Infrastructure	(5.8)	3.9	(9.7)	9.1	1.3	7.8	7.3	0.8	6.5
Partners Group Direct 2015 - Infrastructure	5.8	3.9	1.9	18.6	1.3	17.3	16.7	0.8	15.9
Partners Group Global 2015 - Infrastructure	0.6	3.9	(3.3)	15.9	1.3	14.6	12.4	0.8	11.6
Partners Group Direct III - Infrastructure	11.2	3.9	-	-	-	-	-	-	-

LB Sutton Pension Fund Investments in London CIV and External Managers at 31 March 2024



● Investments managed by London Collective Investment Vehicle  
● Investments managed outside of London Collective Investment Vehicle

## 5. ASSET POOLS

In 2015 the Government announced that the 89 LGPS funds nationally should pool their assets into 8 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 illiquid assets, such as infrastructure, without an expensive management arrangement. In London the 32 boroughs and the City of London Corporation are shareholders of the London Collective Investment Vehicle (LCIV).

LCIV is the asset pooling body set up originally by London Councils. Its objective is to provide funds that meet the investment strategies required by the different LGPS funds in London and to appoint and monitor fund managers to ensure that fee savings are achieved without impacting on performance. As well as appointing active managers, LCIV provides access to lower cost index-tracker funds managed by Blackrock and Legal and General Investment management. LCIV has also been increasing its fund range in less liquid asset classes such as renewable energy infrastructure and private debt over the last year.

Any reduction in the management fees of individual managers also needs 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. LCIV has been operating for 10 years and during 2023/24 the development funding charge was reduced for the first time, as the assets under management has increased. The LCIV currently has 24 funds with £31.6bn of assets under management.

Over the last five years the Fund has made a cumulative net saving of £1,130k after LCIV expenses.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
<b>Set up Costs</b>					
Share purchase	-	-	-	-	-
Annual subscription	25	25	25	25	25
Development funding charge	65	85	85	85	76
<b>Management Fees</b>			86	85	94
<b>Transition Costs</b>	-	-	-	-	-
<b>Gross Fee Savings</b>	(230)	(246)	(441)	(518)	(481)
<b>Net Savings Realised</b>	<b>(140)</b>	<b>(136)</b>	<b>(245)</b>	<b>(323)</b>	<b>(286)</b>

The table below shows the Fund's assets by asset class split between investments managed by the pool, investments deemed pooled and investments outside of the pool.

<b>Asset Values as at 31 March 2024</b>	<b>Pooled</b>	<b>Under Pool Management</b>	<b>Not Pooled</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities	385,153	152,647		537,800
Bonds		47,081		<b>47,081</b>
Multi Asset Credit	31,678		65,011	96,689
Diversified Growth Funds	24,038			<b>24,038</b>
Property			45,033	45,033
Infrastructure	27,234		37,373	<b>64,607</b>
Private Debt	31,238			31,238
Impact	12,045			12,045
Cash and cash equivalents*	3,304		47,089	50,393
<b>Total Investment Assets</b>	<b>514,691</b>	<b>199,728</b>	<b>194,505</b>	<b>908,923</b>

\* This represents cash held in the Fund's money market fund and cash that was in transit at year end. It does not include cash held in the Fund's current account at year end.

The table below shows how the management costs of the Fund compare between those managed by LCIV and the Fund's existing managers.

	<b>Asset Pool</b>	<b>Non-Asset Pool</b>	<b>Fund</b>
	<b>Total</b>	<b>Total</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Management fees	3,319	1,438	4,757
Transaction costs	102	138	240
Custody fees	-	8	8
Performance fees	-	(174)	(174)
<b>Total</b>	<b>3,421</b>	<b>1,410</b>	<b>4,831</b>

Negative performance fees of £174k represents a performance fee credit received from the LCIV Global Equity Fund manager Newton, in respect of prior year underperformance against the target benchmark.

## 6. SCHEME ADMINISTRATION

### Service arrangements

The shared pensions administration service was formed on 1 April 2016 to provide the Local Government Pension Scheme (LGPS) administration function for both the Sutton Pension Fund and the Kingston Pension Fund. The team is hosted by Sutton Council and delivers its services to a total membership of circa 38,230 and 99 employers across the two funds.

The service has the responsibility to:

- Publish annual benefit statements to active and deferred members
- Publish pension savings statements to affected members
- Apply the annual pensions increase as directed by HM Treasury
- Maintain a membership database
- Process tasks (such as, retirements and transfers in and out) in accordance with the performance standards
- Maintain a 'breaches of law' register and notify The Pension Regulator of any materially significant breaches
- Ensure that any internal dispute resolution procedure and corporate complaint cases are dealt with in a timely manner

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

## Summary of activities

During the year the Fund has managed the following key projects/major pieces of work alongside its annual tasks (such as publishing annual benefit statements, applying pension increase, etc):

### McCloud remedy project

In 2014 and 2015 the Government introduced changes to public service pension schemes, including the LGPS, for future service, moving from final salary to career average revalued earnings (CARE) benefits and increasing the normal pension age to be in line with state pension age. The changes applied to existing members as well as new joiners, but older members were given protection against the changes. The Court of Appeal ruled that, in the Judges and Firefighters' Schemes, these changes were discriminatory against younger members and so the Government gave a commitment to make changes to all public service pension schemes to remove discrimination. From 1 October 2023 LGPS regulations have been amended to remove this age discrimination in the form of a final salary underpin.

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

During the financial year 2023 to 2024, the Fund has made good progress on the data collection element of the project and has started the process of validating the employer returns prior to loading them onto its membership database. The project is on-track and suitable resources have been assigned to manage it. Final deliveries of software are expected in Autumn 2024 to move the project onto the final stages.

### Guaranteed Minimum Pensions (GMP) reconciliation project

Between April 1978 and April 1997 the minimum level of benefit payable to those that were contracted-out of the State Earnings Related Pension Scheme was known as a Guaranteed Minimum Pension (GMP), which still forms part of many members' benefits. Contracting-out ended in April 2016 and since then, HM Revenue & Customs (HMRC) no longer tracks contracted-out

rights. HMRC issued closure schedules to all affected schemes so they could compare the GMP amounts held by HMRC against the scheme records and challenge any differences. This is known as a GMP reconciliation. If errors were identified, members may have been over or underpaid because the annual cost of living pension increases would have been misapplied.

Phase one of the exercise was completed in the Autumn of 2019, which analysed and investigated the scheme records to reconcile the fund's GMP amounts with HMRC.

During the financial year 2023 to 2024, the fund has been working with a third party to deliver phase two of the project, which involves updating the affected members pension records. Good progress has been made with our software provider to correct member records and we expect the project to be completed in the 2024/25 financial year.

#### Pensions Dashboards project

The Department for Work and Pensions, via the Money and Pensions Service (MaPS), is creating a Pension Dashboard that will allow members to view their pension information securely, online and in one place. The aim is for the pension industry to provide clear and simple information about an individual's multiple pension savings, including their State Pension. All pension schemes in the UK, including the LGPS, need to connect to the dashboard ecosystem to provide pension members information in a secure way. The staging date, the date by which our software needs to link to the dashboard, is October 2025.

The Fund's software provider has a working party for their LGPS clients to scope the requirements. The Fund has implemented a data improvement policy and is working on a project plan to deliver this project.

#### Data Improvement project

Improving data quality is vital to providing value for money because poor data can impact the fund's valuation of liabilities and also lead to overpayments in individual cases. To mitigate this the Fund has a data improvement policy and plan in place. Common and scheme-specific data scores are calculated and submitted to The Pensions Regulator annually. The 2023/24 scores were 95.32% and 66.6% respectively. The data improvement plan includes actions to identify data issues and solutions to resolve those data validation issues, which the Fund has started to implement. In accordance with the data improvement policy, the Fund engages a data services provider to undertake monthly mortality screening and lost contact address tracing.



## **Value for money statement**

The Fund remains committed to enhancing value for money through its shared service arrangements and keeps the level of resources on the team under constant review. At the end of the financial year 2023 to 2024 there was a benefits processing team, data and systems team and employer liaison and governance team. In total, there are 25.2 FTE positions serving the two Fund's in the shared service (12.6 FTE per Fund). This total includes any vacant positions.

The Fund believes that the current structure, supported with the pension administration system, leaves the Fund well positioned to continue improving service levels to members and employers, drive efficiency savings, demonstrate value for money and be prepared for future challenges in its ongoing administration.

## Data analysis

### Membership data

Active	Deferred (inc. frozen refunds)	Pensioner	Undecided leaver	Total
6,445	7,273	4,810	Contained in active	18,528

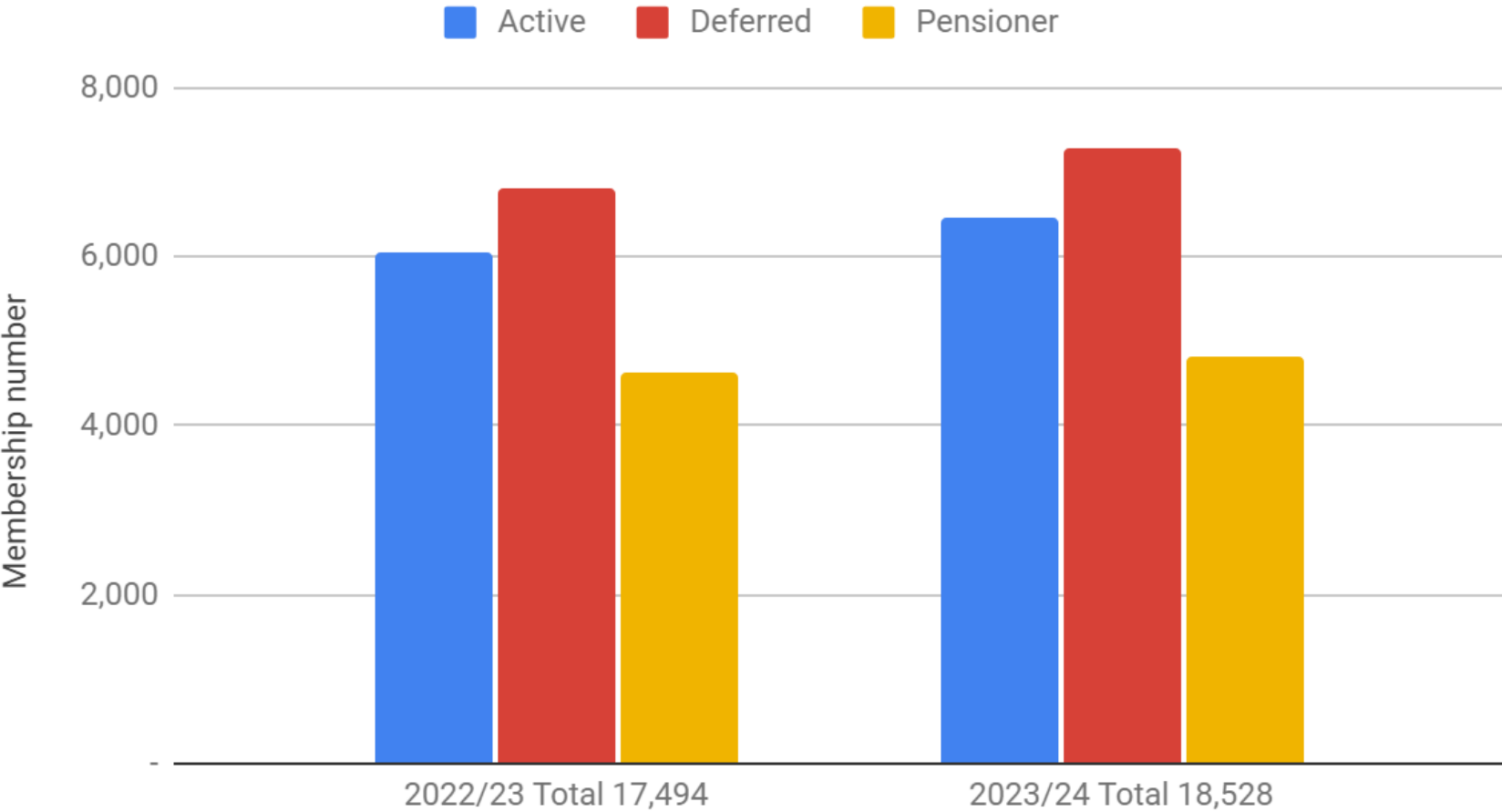
### New pensioners

Normal retirement	Early retirement	Ill-health	Total
146	92	3	241

### Active employer numbers

Scheduled (inc. Sutton Council)	Admitted	Total
46	16	62

# Membership Numbers over 2 years



## 7. GOVERNANCE

### Role of the Pension Committee

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

#### Purpose

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

#### Function

The function of the Pension Committee is:

1. To decide upon the investment policy and strategy of the Fund and arrangements for compliance with all other requirements of government statutes and regulations concerning the Local Government Pension Scheme.
2. To approve all policy statements required or prepared under the LGPS Regulations or any other relevant statute, regulation or statutory guidance.
3. To receive and consider regular reports from each pension fund manager on investment strategy, performance, transactions and other related matters concerning their element of the Council's portfolio.
4. To consider the performance of fund managers in relation to:
  - a. the Council's performance targets for the managers;
  - b. issues concerning the liabilities and assets of the Fund.
5. To appoint managers for the Fund and professional advisers to the Committee, as required.
6. To consider actuarial valuation reports from the actuary and agree recommendations concerning implications on the Pension Fund, including investment strategy and funding arrangements.

7. To agree arrangements for the administration of the Pension Fund including communication with Fund members.
8. To consider and decide upon any other relevant matter relating to the Council's Pension Fund.

The Committee consists of six elected members of the Council and two non-voting representatives. It meets four times per year. The membership of the Committee at the start of the 2023 municipal year was:

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

The below table summarises the Committee attendance and training during the 2023 municipal year:

Councillor Cryss Mennaceur	Councillor Sam Martin	Councillor Paul Cole	Councillor Andrew Jenner	Councillor Tom Drummond	Councillor Patrick Magnus	Councillor Eric Allen (Substitute)	Jeremy Randall (Co-Optee)	Fiona Kemp (Co-Optee)
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<b>Committee attendance</b>								
27 June 2023	✓	✓	✓		✓		✓	✓
10 October 2023	✓	✓	✓	✓	✓	✓		✓
12 December 2023	✓	✓	✓	✓	✓	✓		✓
12 March 2024	✓	✓	✓	✓	✓	✓		✓
<b>Training for the Committee</b>								
Pensions Accounting and Audit Standards - Hymans	✓	✓	✓			✓	✓	✓
Committee Role and Pensions Legislation - Hymans	✓	✓	✓		✓	✓	✓	✓
Investment Performance and Risk Management - Hymans	✓	✓	✓			✓	✓	
Responsible Investing Training including Impact Investing	✓	✓					✓	✓

## Role of Pension Board

The pension fund must operate a Local Pension Board. The Pension Board helps the pension fund comply with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator. The Pension Board is made up of equal numbers of employer and member representatives. The Board's current terms of reference are:

## Purpose

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

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

## Function

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

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

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

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

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



11. Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.

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

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

The Board consists of an independent chair, three scheme employer representatives and three scheme member representatives. It meets four times per year. The membership of the Board at the start of the 2023 municipal year was:

Jonathan Bunt (Chair)  
Andrew Theobald (Vice-Chair)  
Councillor Sunita Gordon  
Chris Reeve  
Angela Russell  
William Cody  
Vacancy

The below table summarises the Board attendance and training during the 2023 municipal year:

	Jonathan Bunt	Andrew Theobald	Angela Russell	Councillor Sunita Gordon	Chris Reeve	William Cody	Anthony Kramer
<b>Board attendance</b>							
20 July 2023	✓	✓	✓	✓	✓		
9 November 2023	✓	✓	✓	✓	✓	✓	✓
11 January 2024	✓	✓		✓	✓	✓	✓
5 March 2024	✓	✓	✓		✓		✓
<b>Training for the Board</b>							
Pensions Accounting and Audit Standards - Hymans	✓	✓	✓	✓			✓
Committee Role and Pensions Legislation - Hymans	✓	✓	✓	✓			✓
Investment Performance and Risk Management - Hymans		✓	✓	✓			✓
Responsible Investing Training including Impact Investing	✓			✓			

## **Governance Compliance Statement**

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

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

The Governance Compliance Statement is shown at Section 11.

## **Risk Management**

Responsibility for the Fund’s risk management strategy sits with the Pension Committee. Significant emerging and persistent risks are recorded in the Pension Fund Risk Register, which is reviewed at each meeting of the committee. The register is also reviewed by the Pension Board in its role of assisting the Council with securing compliance with control arrangements.

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

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

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

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

Assurance over the systems operated by the Fund's investment managers and custodian is secured by obtaining relevant documentation, including reports about their internal control environment. A formal review of the robustness of the Pension Fund's accounting systems is undertaken by its external auditors, KPMG, as part of the annual audit.

Draft

## 8. ACTUARIAL REPORT

The Pension Fund is required by regulations to have an assessment every 3 years of its pension liabilities and the assets available to pay for them. The last triennial valuation took place in 2022 and the results are summarised in the table below. This shows the Fund had a surplus of £6m, which represents a funding level of 101%. This compares with a funding level of 90% at the previous valuation in 2019. The full valuation report can be found here: [LBS AV 2022](#) The next valuation will be carried out during 2025.

Monetary amounts in £m	Ongoing basis	
	31 March 2022	31 March 2024
<b>Assets</b>	854	909
<b>Liabilities</b>		
– Active members	254	224
– Deferred pensioners	209	157
– Pensioners	384	328
<b>Total liabilities</b>	848	709
<b>Surplus/(deficit)</b>	6	200
<b>Funding level</b>	101%	128%
<b>Required return assumption (% pa) for funding level to be 100%</b>	4.2%	4.6%
<b>Likelihood of assets achieving this return</b>	70%	85%

## 9. EXTERNAL AUDIT REPORT

To be added once KPMG has concluded the 2023/24 audit.

Draft

## 10. PENSION FUND ACCOUNTS 2023/24

### Sutton Pension Fund Account for the year ended 31 March 2024

2022/23			2023/24
£'000		Note	£'000
	Dealings with members, employers and others directly involved in the Fund		
(33,340)	Contributions	7	(42,101)
(3,861)	Transfers in from other pension funds	8	(6,985)
(37,201)			(49,086)
32,135	Benefits	9	34,654
3,062	Payments to and on account of leavers:	10	3,385
35,197			38,039
<b>(2,004)</b>	Net (additions) / withdrawals from dealings with members		<b>(11,047)</b>
5,757	Management expenses	11	6,096
<b>3,753</b>	Net (additions)/withdrawals including fund management expenses		<b>(4,949)</b>
	Returns on Investments		
(15,406)	Investment income	12	(16,982)
23	Taxes on income	13	16
55,888	(Profit) loss on disposal of investments and changes in the market value of investments	14b	(91,525)
<b>40,505</b>	<b>Net (Return)/Loss on Investments</b>		<b>(108,491)</b>
44,258	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(113,440)
<b>(854,836)</b>	Opening Net Assets of the Scheme		<b>(810,578)</b>
<b>(810,578)</b>	Closing Net Assets of the Scheme		<b>(924,018)</b>

\*Management expenses for 2022/23 have been restated to remove costs that have not been directly incurred by the fund, either by being deducted from the net asset value of investments or by being deducted from income.

## Sutton Pension Fund Net Assets Statement for the year ended 31 March 2024

2022/23		Note	2023/24
£'000			£'000
150	Long term assets		150
807,461	Investment Assets	14	908,923
<b>807,611</b>	<b>Total Net Investments</b>		<b>909,073</b>
21,097	Current Assets	20	17,096
(18,130)	Current Liabilities	21	(2,151)
<b>810,578</b>	<b>Net Assets of the Fund available to fund benefits at the end of the reporting period</b>		<b>924,018</b>



# 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. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The LGPS is a contributory defined benefit pension scheme established in accordance with statute, which provides pensions and other benefits for pensionable employees of the London Borough of Sutton and the admitted and scheduled bodies in the Fund. Teachers are not included as they come within other national pension schemes.

The benefits offered by the LGPS include retirement pensions, 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 all matters relating to the Fund to the Pension Committee. Its core functions include deciding upon the investment strategy, approving policy statements, and monitoring performance. The Committee is made up of six Members of the Council each of whom has voting rights and two other non-voting representatives.

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

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the London Borough of Sutton Pension Fund include:

- Scheduled bodies which are automatically entitled to be members of the fund.
- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

## PF Note 1 - Description of the Fund (continued)

Active Scheme employers at 31 March 2024 were as follows:

<b>Administering Authority</b>	<b>Scheduled bodies</b>	<b>Scheduled bodies (cont.)</b>	<b>Admission bodies</b>
London Borough of Sutton including LEA schools	Abbey Primary School	<ul style="list-style-type: none"> <li>• <i>Wood Field Primary School</i></li> </ul>	ABM Catering (Overton Grange)
	Addington Valley Academy	Harris Academy Sutton	Caterlink
	All Saints Carshalton CofE Primary School	Harris Junior Academy Carshalton	CleanTEC Services (Girls' Learning Trust)
	Beddington Park Academy	LEO Academy Trust pool:	Citizens Advice - Sutton
	Carew Academy	<ul style="list-style-type: none"> <li>• <i>Brookfield Primary Academy</i></li> </ul>	Cognus
	Carshalton Boys Sports College	<ul style="list-style-type: none"> <li>• <i>Cheam Common Infants' Academy</i></li> </ul>	Cucina Restaurants (Wilson's School)
	Cheam Academies Network pool:	<ul style="list-style-type: none"> <li>• <i>Cheam Common Junior Academy</i></li> </ul>	DB Services (Dorchester Primary)
	<ul style="list-style-type: none"> <li>• <i>Cheam High School</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Cheam Fields Primary Academy</i></li> </ul>	Encompass LATC
	<ul style="list-style-type: none"> <li>• <i>Oaks Park High School</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Cheam Park Farm Primary Academy</i></li> </ul>	Joskos Solutions (OHCAT)
	Cirrus Primary Academy Trust pool:	<ul style="list-style-type: none"> <li>• <i>LEO Academy Trust Central Staff</i></li> </ul>	Junior Adventures Group (Muschamp Primary)
	<ul style="list-style-type: none"> <li>• <i>Avenue Primary Academy</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Manor Park Primary Academy</i></li> </ul>	Orchard Childcare
	<ul style="list-style-type: none"> <li>• <i>Barrow Hedges Primary School</i></li> </ul>	Orchard Hill College	Pabulum (Glenthorne)

<b>Administering Authority</b>	<b>Scheduled bodies</b>	<b>Scheduled bodies (cont.)</b>	<b>Admission bodies</b>
	<ul style="list-style-type: none"> <li><i>Cirrus Primary Academy Trust - Central Staff</i></li> </ul>	Orchard Hill College Academy Trust - Central Staff	PlayWise Learning CIC
	<ul style="list-style-type: none"> <li><i>Rushy Meadow Primary Academy</i></li> </ul>	Overton Grange School	Ridgecrest Cleaning (St Philomena's)
	<ul style="list-style-type: none"> <li><i>Stanley Park Infants School</i></li> </ul>	Sutton Grammar School	Saba Park Services
	<ul style="list-style-type: none"> <li><i>Wallington Primary Academy</i></li> </ul>	Sutton Housing Partnership	Sports and Leisure Management
	Girls' Learning Trust pool:	The Limes College	
	<ul style="list-style-type: none"> <li><i>Carshalton High School for Girls</i></li> </ul>	The Link School	
	<ul style="list-style-type: none"> <li><i>Girls' Learning Trust - Central Staff</i></li> </ul>	Wallington County Grammar School	
	<ul style="list-style-type: none"> <li><i>Nonsuch High School for Girls</i></li> </ul>	Wandle Valley Academy	
	<ul style="list-style-type: none"> <li><i>Wallington High School for Girls</i></li> </ul>	Westbourne Primary School	
	Glenthorne High School	Wilson's School	
	Greenshaw Learning Trust pool:		
	<ul style="list-style-type: none"> <li><i>Bandon Hill Primary School</i></li> </ul>		
	<ul style="list-style-type: none"> <li><i>Green Wrythe Primary School</i></li> </ul>		
	<ul style="list-style-type: none"> <li><i>Greenshaw High School</i></li> </ul>		
	<ul style="list-style-type: none"> <li><i>Tweeddale Primary School</i></li> </ul>		
	<ul style="list-style-type: none"> <li><i>Victor Seymour Infants' School</i></li> </ul>		

## PF Note 1 - Description of the Fund (continued)

The following table summarises the membership numbers of the scheme:

<b>2022/23</b>		<b>2023/24</b>
<b>No.</b>		<b>No.</b>
60	Number of Employers with active members	62
	<b>Active Members</b>	
2,614	London Borough of Sutton	2,669
3,266	Scheduled bodies	3,637
159	Admission bodies	139
6,039		6,445
	<b>Deferred Members</b>	
4,954	London Borough of Sutton	5,031
1,755	Scheduled bodies	2,114
110	Admission bodies	128
6,819		7,273
	<b>Pensioners (including Dependents)</b>	
4,070	London Borough of Sutton	4,176
487	Scheduled bodies	551
79	Admission bodies	83
4,636		4,810
<b>17,494</b>	<b>Total</b>	<b>18,528</b>

## 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. Accrued pension is uprated annually in line with the Consumer Prices Index.

Key details of the scheme's variants are shown in the table below.

	Service pre 1 April 2008	Service 1 March 2008 to 31 March 2014	Service post 31 March 2014
<b>Pension</b>	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
<b>Lump sum</b>	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.	

A range of other benefits are also provided including early retirement, ill-health pensions and death benefits. Further information is available at <https://www.lgpsmember.org>

### e) Funding

Benefits are funded by contributions and investment earnings. 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 ending 31 March 2024. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

Employers' contributions are set based on triennial actuarial funding valuations. Employer contribution rates payable from 1 April 2023 were set by the triennial valuation as at 31 March 2022, the results of which were published on 31 March 2023. In 2023/24, employer contribution rates ranged from 0.0% to 32.4% of pensionable pay.

## PF Note 2 - Basis of preparation

The statement of accounts summarises the Fund's transactions for the 2023/24 financial year and its position as at 31 March 2024. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2023/24' (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 2024 and are determined as follows:

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

## PF Note 3 - Summary of significant accounting policies

### Fund account – revenue recognition

#### a) Contribution Income

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

Employer's augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. (Augmentation is the cost of additional membership awarded by an employer).

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions

to purchase scheme benefits are accounted for on a receipts basis.

#### c) Investment income

##### • Interest income

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

Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

##### • Dividend income

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

##### • Distributions from pooled funds

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

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

#### d) Benefits payable

Pensions and lump sum benefits include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

#### e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Interest from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

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

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

### f) Management Expenses

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

- Administrative Expenses

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

- Oversight and Governance Costs

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

- Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included here.

### Net Assets Statement

#### g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

#### h) Actuarial present value of promised retirement benefits

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

#### i) Additional Voluntary Contributions

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



## **PF Note 4 - Critical judgements in applying accounting policies**

In applying the accounting policies as set out in Note 3 above, the Council has had to make critical judgements about complex transactions or those involving uncertainty about future events. There were no such critical judgements made during 2023-24.

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## PF Note 5 - Assumptions made about the future and other major sources of estimation uncertainty

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>There is further uncertainty arising from a legal challenge to the Government's transitional arrangements following the public sector pension reforms in 2015. The McCloud case was upheld by the Court of Appeal in December 2018 which found the transitional arrangements to be discriminatory on the grounds of age and gender. Following consultation by government, the key features of the proposed remedy include levelling up benefits for the younger members who suffered discrimination using a form of final salary underpin. Final regulations came into force in October 2023.</p>	<p>The sensitivity of the net Pension Fund liability to a change in assumptions can be measured. For example a 0.1% decrease in the discount rate assumption would result in an approximate increase of £16m in the Fund's pension liability; a one year increase in member life expectancy would increase the liability by approximately £36m and a 0.1% increase in the rate of salary increase would increase the liability by approximately £1m.</p> <p>The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of assumptions about potential remedies.</p> <p>The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of remedies and assumptions. The Council's actuaries have applied the same assumptions as used to prepare the IAS26 report to the remedies in the GAD review which indicate a potential increase in pension liabilities of 0.3%. This figure is based on a worst case scenario and the impact will be reduced if the remedies proposed are not as extensive as in the original GAD report.</p>
Unquoted investments	<p>The assets held by the Pension Fund are managed by fund managers on a pooled basis. Some of these assets are unquoted and values are estimated by fund managers using comparable market data, indices and data from third parties, as well as projected revenue streams associated with the assets. Property, private debt and infrastructure funds do not have published prices, are not regularly traded and have many unobservable inputs feeding into their valuations and so are treated as level 3.</p>	<p>The potential impact of this uncertainty cannot be measured accurately. The total of level 3 funds held by the Pension Fund are valued at £152.9m, and the variation around this value is estimated to be +/- 10%, which equates to +/- £15.3m.</p>

## PF Note 6 - Events after the reporting period end

The unaudited Statement of Accounts was authorised for issue by the Strategic Director - Resources (S151 Officer) on 12 June 2024.

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

## PF Note 7 - Contributions receivable

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

By Category

<b>2022/23</b>		<b>2023/24</b>
<b>£'000</b>		<b>£'000</b>
(8,184)	Employees' contributions	(9,032)
	Employers' contributions	
(23,238)	Normal Contributions	(27,089)
(1,853)	Deficit Recovery Contributions	(5,801)
(65)	Augmentation contributions	(179)
<b>(25,156)</b>		<b>(33,069)</b>
<b>(33,340)</b>		<b>(42,101)</b>

## PF Note 7 - Contributions receivable (continued)

By Authority

<b>2022/23</b>		<b>2023/24</b>
<b>£'000</b>		<b>£'000</b>
(16,193)	London Borough of Sutton	(24,147)
(16,160)	Scheduled bodies	(16,829)
(987)	Admitted bodies	(1,125)
<b>(33,340)</b>		<b>(42,101)</b>

## PF Note 8 - Transfers in from other pension funds

<b>2022/23</b>		<b>2023/24</b>
<b>£'000</b>		<b>£'000</b>
(3,861)	Individual transfers	(6,985)
-	Group transfers	-
<b>(3,861)</b>		<b>(6,985)</b>

During the years ended 31 March 2024 and 31 March 2023, no group transfers were received into the Fund.

## PF Note 9 - Benefits payable

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

By Category

2022/23		2023/24
£'000		£'000
27,680	Pensions	30,397
4,215	Commutation and Lump sum retirement benefits	3,582
240	Lump sum death benefits	675
<b>32,135</b>		<b>34,654</b>

By Authority

2022/23		2023/24
£'000		£'000
27,448	London Borough of Sutton	29,309
3,955	Scheduled bodies	4,605
732	Admitted bodies	740
<b>32,135</b>		<b>34,654</b>

## PF Note 10 - Payments to and on account of leavers

2022/23		2023/24
£'000		£'000
88	Refunds to members leaving service	109
-	Group transfers	-
2,973	Individual transfers	3,276
<b>3,062</b>		<b>3,385</b>

## PF Note 11 - Management expenses

2022/23 Restated		2023/24
£'000		£'000
1,065	Administration Expenses	1,080
4,582	Investment Management Expenses	4,831
110	Oversight and Governance	185
<b>5,757</b>		<b>6,096</b>

Management expenses for 2022/23 have been restated to remove costs that have not been directly incurred by the fund, either by being deducted from the net asset value of investments or by being deducted from income.

## 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. The figures below include management costs and embedded transaction costs deducted from the net asset value or from investment income. The 2022/23 figures have been restated to remove indirect costs not deducted from the net asset value or from investment income.

<b>2022/23 Restated</b>		<b>2023/24</b>
<b>£'000</b>		<b>£'000</b>
4,354	Management Fees	4,757
-	Performance Fees	(174)
83	Custody Fees	8
145	Transaction Costs	240
<b>4,582</b>		<b>4,831</b>

## PF Note 11b - External audit costs

<b>2022/23</b>		<b>2023/24</b>
<b>£'000</b>		<b>£'000</b>
42	External audit costs	69
<b>42</b>		<b>69</b>

## PF Note 12 - Investment income

2022/23		2023/24
£'000		£'000
	Pooled Investments:	
(3,578)	- Equities	(2,939)
(1,625)	- Property	(1,724)
(2,717)	- Multi Asset Credit	(5,065)
(1,776)	- Diversified Growth Funds	(821)
(124)	- Private Debt	-
(5,476)	- Infrastructure	(4,318)
(110)	Interest on Cash Deposits	(2,115)
<b>(15,406)</b>		<b>(16,982)</b>

## PF Note 13 - Taxes on income

2022/23		2023/24
£'000		£'000
23	Withholding tax - pooled	16
<b>23</b>		<b>16</b>



## PF Note 14 - Investments

2022/23	Investment Assets	2023/24
£'000		£'000
	<b>Pooled Investment Vehicles:</b>	
441,963	Equities	537,800
50,531	Fixed Income	47,081
49,712	Property	57,077
86,140	Multi Asset Credit	96,689
95,660	Diversified Growth Funds	24,038
55,808	Infrastructure	64,607
27,533	Private Debt	31,238
	<b>Other Investment Balances:</b>	
43	Cash deposits	47,030
71	Accrued income and recoverable taxes	59
-	Amounts receivable for sales of investments	3,304
<b>807,461</b>	<b>Total Net Investment Assets</b>	<b>908,923</b>

## PF Note 14a - Analysis of Pooled Investment Vehicles

2023/24	Pooled Investment Vehicles:			Other managed funds:		Total
	ACS	Unit trusts	Unitised insurance policies	OEIC	SICAV	
	£'000	£'000	£'000	£'000	£'000	£'000
Equities	385,153	-	152,647	-	-	537,800
Fixed Income	-	-	47,081	-	-	47,081
Property	-	41,002	-	-	16,075	57,077
Multi Asset Credit	31,678	-	-	65,011	-	96,689
Diversified Growth Funds	24,038	-	-	-	-	24,038
Infrastructure	-	27,234	-	-	37,373	64,607
Private Debt	-	31,238	-	-	-	31,238
	<b>440,869</b>	<b>99,474</b>	<b>199,728</b>	<b>65,011</b>	<b>53,447</b>	<b>858,530</b>

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

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

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

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

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

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

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

## PF Note 14b - Reconciliation of movements in investments

2023/24	Value 31 March 2023	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2024
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	441,963	155,458	(153,360)	93,739	537,800
- Fixed Income	50,531	-	(3)	(3,448)	47,081
- Property	49,712	12,504	(1,716)	(3,422)	57,077
- Multi Asset Credit	86,140	5,065	(368)	5,853	96,690
- Diversified Growth Funds	95,660	821	(72,625)	181	24,037
- Infrastructure	55,808	13,458	(894)	(3,765)	64,608
- Private Debt	27,533	1,574	(257)	2,387	31,237
<b>Sub-total Investments</b>	<b>807,347</b>	<b>188,881</b>	<b>(229,223)</b>	<b>91,525</b>	<b>858,530</b>
Other Investment Balances:					
Cash deposits	43				47,030
Trade receivables / payables	-				3,304
Accrued income and recoverable taxes	71				59
<b>Net Investment Assets</b>	<b>807,461</b>			<b>91,525</b>	<b>908,923</b>

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

2022/23	Value 31 March 2022	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2023
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	466,057	3,579	(734)	(26,939)	441,963
- Fixed Income	93,404	-	(20,004)	(22,869)	50,531
- Property	56,371	145	(157)	(6,646)	49,712
- Multi Asset Credit	86,694	2,713	(337)	(2,930)	86,140
- Diversified Growth Funds	99,837	1,776	(838)	(5,115)	95,660
- Infrastructure	37,664	19,474	(8,214)	6,883	55,808
- Private Debt	17,094	11,566	(2,757)	1,629	27,533
<b>Sub-total Investments</b>	<b>857,121</b>	<b>39,253</b>	<b>(33,039)</b>	<b>(55,987)</b>	<b>807,347</b>
Other Investment Balances:					
Cash deposits	385			99	43
Accrued income and recoverable taxes	(2)			-	71
<b>Net Investment Assets</b>	<b>857,504</b>			<b>(55,888)</b>	<b>807,461</b>

## 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 2024 is shown below.

31 March 2023			31 March 2024	
Market Value	% of total	Fund Manager	Market Value	% of total
£'000	%		£'000	%
<b>Investments managed by London Collective Investment Vehicle</b>				
48,159	6.0%	LCIV Global Total Return Fund (Pyrford)	-	0.0%
47,502	5.9%	LCIV Diversified Growth Fund (Baillie Gifford)	24,038	2.8%
104,074	12.9%	LCIV Global Equity Fund (Newton)	130,377	15.2%
112,319	13.9%	LCIV Sustainable Equity Fund (RBC)	130,096	15.2%
28,406	3.5%	LCIV Multi Asset Credit Fund (CQS, Pimco)	31,678	3.7%
27,533	3.4%	LCIV Private Debt Fund (Pemberton, Churchill)	31,238	3.6%
19,920	2.5%	LCIV Renewable Infrastructure (BlackRock, Stonepeak, Quinbrook, and Foresight)	27,234	3.2%
-	0.0%	LCIV Passive Equity Progressive Paris Aligned Fund (State Street Global Advisors Limited)	124,680	14.5%
-	0.0%	LCIV The London Fund (LPPI)	11,944	1.4%
-	0.0%	LCIV UK Housing Fund (CBRE)	100	0.0%
73,675	9.1%	Legal & General - Future World Global Equity Index Fund	152,647	17.8%
50,531	6.3%	Legal & General Over 5 Year Index Linked Gilts Fund	47,081	5.5%
512,120	63.5%		711,113	82.9%
<b>Investments managed outside of London Collective Investment Vehicle</b>				
151,894	18.8%	Harding Loevner Funds Plc Global Equity Fund	-	0.0%
57,734	7.2%	M&G Alpha Opportunities Fund	65,011	7.6%
11,417	1.4%	LaSalle Investors UK Real Estate Fund of Funds	9,737	1.0%
21,637	2.7%	BlackRock UK Property Fund	19,221	2.2%
16,658	2.1%	Invesco Real Estate UK Residential Fund SCSp	16,075	1.9%
35,888	4.3%	Partners Group Direct & Global - various	37,373	4.4%
295,227	36.5%		147,417	17.1%
<b>807,347</b>	<b>100.0%</b>	<b>Total</b>	<b>858,530</b>	<b>100.0%</b>

## PF Note 15 - Fair value – basis of valuation

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

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

### **Level 1**

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

### **Level 2**

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

### **Level 3**

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

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments - equities	Level 1	Recognised at market value	Not required	Not required
Market quoted investments - pooled equities and bonds	Level 1	Published bid market price on final day of the accounting period	Not required	Not required
Pooled investments - equities and bonds	Level 2	Closing bid price where bid price published. Closing single price where single price published	NAV based pricing set on a forward pricing basis. Evaluated price feeds	Not required
Pooled property investments where regular trading does not take place	Level 3	Fair value as determined by independent valuers	NAV based pricing set on a forward pricing basis. Unobservable inputs include rental income and gross yield	Valuations of underlying properties could be affected by a range of variables, including changes to estimated rental growth, vacancy levels and construction costs
Pooled infrastructure investments	Level 3	EBITDA multiples, discounted cashflows, market comparable companies, replacement costs and adjusted net asset values	Discount factors, recent transaction prices, reported net asset values and fair value adjustments	Valuations could be affected by a range of variables, such as changes to expected cashflows, or the difference between audited and unaudited accounts
Pooled private debt investments	Level 3	Valued by underlying investment managers	NAV based pricing with many unobservable inputs	Valuations could be affected by a range of variables, such as the quality of underlying collateral, or varying liquidity

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

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2024 and 31 March 2023.

<b>2023/24</b>	<b>Potential variation in fair value</b>	<b>Value at 31 March 2024</b>	<b>Potential value on increase</b>	<b>Potential value on decrease</b>
	<b>+/-</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Pooled Investment Vehicles:				
- Property	10%	57,078	62,786	51,370
- Infrastructure	10%	64,607	71,068	58,146
- Private Debt	10%	31,237	34,360	28,113
<b>Total</b>		<b>152,922</b>	<b>168,213</b>	<b>137,630</b>

<b>2022/23</b>	<b>Potential variation in fair value</b>	<b>Value at 31 March 2023</b>	<b>Potential value on increase</b>	<b>Potential value on decrease</b>
	<b>+/-</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Pooled Investment Vehicles:				
- Property	10%	49,712	54,683	44,741
- Infrastructure	10%	55,808	61,389	50,227
- Private Debt	10%	27,533	30,286	24,780
<b>Total</b>		<b>133,053</b>	<b>146,358</b>	<b>119,748</b>

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



## PF Note 15a - Fair value hierarchy

31 March 2023					31 March 2024			
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:				
368,287	73,675		441,962	Equities	385,153	152,647		537,800
	50,531		50,531	Fixed Income		47,081		47,081
		49,712	49,712	Property			57,077	57,077
	86,140		86,140	Multi Asset Credit		96,689		96,689
	95,660		95,660	Diversified Growth Funds		24,038		24,038
		55,808	55,808	Infrastructure			64,607	64,607
		27,533	27,533	Private Debt			31,238	31,238
<b>368,287</b>	<b>306,006</b>	<b>133,053</b>	<b>807,346</b>	<b>Financial Assets at fair value through profit and loss</b>	<b>385,153</b>	<b>320,455</b>	<b>152,922</b>	<b>858,530</b>

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

2023/24	Value 31 March 2023	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2024
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	49,712	-	-	12,504	(1,716)	(3,422)	57,078
- Infrastructure	55,808	-	-	13,458	(894)	(3,765)	64,607
- Private Debt	27,533	-	-	1,574	(257)	2,387	31,237
<b>Total</b>	<b>133,053</b>	<b>-</b>	<b>-</b>	<b>27,536</b>	<b>(2,867)</b>	<b>(4,800)</b>	<b>152,922</b>

2022/23	Value 31 March 2022	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2023
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	56,371	-	-	145	(157)	(6,646)	49,712
- Infrastructure	37,664	-	-	19,474	(8,214)	6,883	55,808
- Private Debt	17,094	-	-	11,566	(2,757)	1,629	27,533
<b>Total</b>	<b>111,129</b>	<b>-</b>	<b>-</b>	<b>31,184</b>	<b>(11,127)</b>	<b>1,866</b>	<b>133,053</b>

## PF Note 16a - Classification of financial instruments

2022/23			2023/24		
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
<b>Financial Assets</b>					
Pooled Investment Vehicles:					
441,963			537,800		
50,531			47,081		
49,712			57,077		
86,140			96,689		
95,660			24,038		
55,808			64,607		
27,533			31,238		
	18,279			60,960	
				3,304	
	2,932			3,226	
<b>807,347</b>	<b>21,211</b>	<b>-</b>	<b>858,530</b>	<b>67,490</b>	<b>-</b>
<b>Long Term Assets</b>					
	150			150	
<b>807,347</b>	<b>21,361</b>	<b>-</b>	<b>858,530</b>	<b>67,640</b>	<b>-</b>
<b>Financial Liabilities</b>					
-	-	(18,130)	-	-	(2,151)
-	-	(18,130)	-	-	(2,151)
<b>807,347</b>	<b>21,361</b>	<b>(18,130)</b>	<b>Total</b>	<b>858,530</b>	<b>(2,151)</b>

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

2022/23		2023/24
£'000		£'000
	Financial Assets	
(55,987)	Designated at fair value through profit and loss	91,525
99	Designated at amortised cost	-
<b>(55,888)</b>		<b>91,525</b>

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

### Key risks

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

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

### Overall Procedures for Managing Risk

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

performance and to operate a separate Pension Fund bank account. Overall these procedures require the Administering Authority to manage Pension Fund risk by maintaining and investing in accordance with a:

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

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

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

### a) Market risk

Market risk is the risk of loss from fluctuations in equity, bond and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return.

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

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short, is unlimited.

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

### Other price risk – sensitivity analysis

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

### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

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

### Interest rate – risk sensitivity analysis

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

Assets exposed to interest rate risk:

<b>2023/24</b>	<b>Asset Values at 31 March 2024</b>	<b>Impact of 1% increase</b>	<b>Impact of 1% decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash	60,960	60,960	60,960
Fixed interest bonds	65,484	63,585	67,383
Variable rate bonds	31,205	30,352	32,058
<b>Total</b>	<b>157,649</b>	<b>154,897</b>	<b>160,400</b>

<b>2023/24</b>	<b>Interest receivable 31 March 2024</b>	<b>Value on 1% increase</b>	<b>Value on 1% decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash	(2,115)	(2,136)	(2,094)
Fixed interest bonds	3,259	3,259	3,259
Variable rate bonds	1,806	1,932	1,896
<b>Total</b>	<b>2,950</b>	<b>3,055</b>	<b>3,060</b>

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

<b>2022/23</b>	<b>Asset Values at 31 March 2023</b>	<b>Impact of 1% increase</b>	<b>Impact of 1% decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash	18,279	18,279	18,279
Fixed interest bonds	64,047	64,154	68,079
Variable rate bonds	31,205	19,450	20,597
<b>Total</b>	<b>113,532</b>	<b>101,883</b>	<b>106,955</b>

<b>2022/23</b>	<b>Interest receivable 31 March 2023</b>	<b>Value on 1% increase</b>	<b>Value on 1% decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash	(110)	(111)	(109)
Fixed interest bonds	2,016	2,016	2,016
Variable rate bonds	696	1,932	1,896
<b>Total</b>	<b>2,602</b>	<b>3,837</b>	<b>3,803</b>

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

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

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

### Currency risk – sensitivity analysis

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

The following table summarises the Fund's currency exposure as at 31 March 2024, along with the impact that a 10% strengthening / weakening of the pound against the various currencies in which the Fund holds investments would have on the values.

The value on increase and value on decrease for an individual currency exposure is calculated with reference to that currency's volatility, relative to GBP, over the three years to March 2024. Given that currency changes are not necessarily correlated it is not appropriate to sum the outputs from each currency. In calculating the increase and decrease at a total fund level, it is necessary to establish the change in value of the aggregate of currencies held. It is this change that is applied to the overall currency exposure.

Value as at 31/03/2023	Value on 10% price increase	Value on 10% price decrease	Currency Exposure - Asset Type	Value as at 31/03/2024	Value on 10% price increase	Value on 10% price decrease
£'000	£'000	£'000		£'000	£'000	£'000
43,416	47,757	39,074	Overseas infrastructure	37,373	41,110	33,635
<b>43,417</b>	<b>47,757</b>	<b>39,074</b>	<b>Total assets available to pay benefits</b>	<b>37,374</b>	<b>41,110</b>	<b>33,635</b>



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

### Other Price Risk -Sensitivity Analysis

Value as at 31/03/2023	Change +/-	Value on increase	Value on decrease	Asset Type	Value as at 31/03/2024	Change +/-	Value on increase	Value on decrease
£'000	%	£'000	£'000		£'000	%	£'000	£'000
441,963	18.1	521,958	361,967	Equities	537,800	18.4	636,755	438,845
50,531	9.6	55,382	45,680	Fixed income	47,081	10.1	51,836	42,326
49,712	14.1	56,721	42,702	Property	57,077	14.8	65,525	48,630
86,140	10.9	95,529	76,750	Multi Asset Credit	96,689	10.9	107,228	86,150
95,660	10.2	105,418	85,903	Diversified Growth Funds	24,038	10.6	26,586	21,490
55,808	15.4	64,402	47,213	Infrastructure	64,607	14.4	73,911	55,304
27,533	11.5	30,700	24,367	Private Debt	31,238	10.6	34,549	27,927
<b>807,347</b>		<b>930,110</b>	<b>684,582</b>	<b>Total</b>	<b>858,530</b>		<b>996,390</b>	<b>720,672</b>

#### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Pension Fund has selected bond managers who have an investment strategy that requires investment only in high investment

grade and collateralised products and who use research and market knowledge to minimise exposure to credit risk. The Pension Fund uses a custodian to ensure that all money due is paid in full and on time. Internally invested cash is placed in an interest bearing account with the Council's bankers.

#### c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case to meet the pensioner payroll costs and also cash to meet investment commitments. The Pension Fund currently

remains cash flow positive with contributions exceeding payable pensions, though this is regularly monitored. The Council has immediate access to a proportion of its Pension Fund cash holdings, as these are held in an instant access interest bearing account maintained by Council officers. Surplus funds are invested externally with fund managers. In the event of a funding shortfall, the LGPS regulations permit the administering authority to borrow on behalf of the Pension Fund for up to 90 days. If required, funds can also be called back from investment managers to meet liabilities.

## PF Note 18 - Funding arrangements

### Actuarial position

Rates of contributions paid by the participating Employers during 2023/24 were based on the actuarial valuation carried out as at 31 March 2022 by the Fund's actuary.

The objectives of the Fund's funding strategy is:

- to ensure the long-term solvency of the Fund, so that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of three years. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2022 actuarial valuation, the fund was assessed as 101% funded (90% at the March 2019 valuation). This corresponded to a deficit of £6m (2019 valuation: £71m) at that time.

### Contribution Rates

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

The rates of contributions payable by each participating employer over the period 1 April 2023 to 31 March 2026 are set out in a certificate dated 31 March 2022, which is appended to the actuary's report on the actuarial valuation. For those bodies which have become separate employers within the Fund since the valuation date, their contribution rates have been calculated individually and certified by the Fund's actuary.

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

## PF Note 18 - Funding arrangements (continued)

<b>Contribution Rates</b>	
Fund primary rate	18.8%
Average member rate	6.7%
<b>Average total future service rate</b>	<b>25.5%</b>

The following table shows a summary of the results of the 2022 valuation;

<b>Past Service Position</b>	<b>31/03/2022</b>
	<b>£m</b>
Past Service Liabilities	(848)
Market Value of Assets	854
Surplus (Deficit)	6
<b>Funding Level</b>	<b>101%</b>

The valuation was undertaken using principal assumptions as follows;

<b>Financial Assumptions</b>	<b>31/03/2022</b>
	<b>Nominal</b>
Discount Rate	4.3%
Salary Increases	2.7%
Pension Increases	2.7%

Assumed life expectancies at age 65 is as follows;

<b>Demographic Assumptions</b>	<b>31/03/2022</b>
Male pensioners	22.1
Male non-pensioners	23.0
Female pensioners	24.8
Female non-pensioners	26.0

## PF Note 18 - Funding arrangements (continued)

### Commutation assumption

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

## PF Note 19 - Actuarial present value of promised retirement benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2024, 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).

<b>31 March 2023</b>		<b>31 March 2024</b>
<b>£'m</b>		<b>£'m</b>
(888)	Actuarial present value of promised retirement benefits	(908)
811	Net fund assets available to fund benefits	924
<b>(77)</b>	<b>Net Asset/Liability</b>	<b>16</b>

The promised retirement benefits at 31 March 2024 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022.

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

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

2022/23		2023/24
%		%
3.0	Pension increase rate (CPI)	2.8
3.0	Salary increase rate	2.8
4.8	Discount rate	4.8

## PF Note 20 - Current assets

31 March 2023		31 March 2024	
£'000		£'000	
2,565	Contributions	2,716	
367	Other debtors	510	
18,165	Cash at Bank	13,871	
<b>21,097</b>	<b>Total Current Assets</b>	<b>17,096</b>	

## PF Note 21 - Current liabilities

31 March 2023		31 March 2024	
£'000		£'000	
(14,560)	Transfers out	-	
(1,927)	Other Creditors	(909)	
(1,643)	Current payables	(1,242)	
<b>(18,130)</b>	<b>Total Current Liabilities</b>	<b>(2,151)</b>	

## PF Note 22 - Additional voluntary contributions

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

The Council's approved AVC providers are Clerical Medical and Utmost (formerly Equitable Life). These are money purchase arrangements reported annually on 31st May. Total contributions paid by members in Clerical Medical during 2023/24 were £192k (£145k in 2022/23), as below. There are no active contributors with Utmost.

<b>31 May 2023</b>		<b>31 May 2024</b>
<b>£'000</b>		<b>£'000</b>
145	Clerical Medical	192
<b>145</b>		<b>192</b>

At 31 May 2024, the total estimated value of the AVC funds with Clerical Medical and Utmost was £1,078k (£848k at 31 May 2023).

## 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 2023/24 was £1,102,752 (£1,062,692 in 2022/23)

One of the Councillors voting on the Pension Committee was a member of the Pension Fund at 31 March 2024.

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

## PF Note 23 - Related party transactions (continued)

31 March 2023		31 March 2024	
£'000		£'000	
102	Short-term benefits	126	
139	Post-employment benefits	202	
<b>241</b>		<b>328</b>	

## PF Note 24 - Contingent liabilities and contingent assets

There are no outstanding contractual commitments and no material relating non-adjusting events occurring subsequent to the period end.

Outstanding capital commitments (investments) at 31 March 2024 were £127.8m (£65.6m at 31 March 2023). These commitments relate to outstanding call payments due on the private debt, infrastructure, UK Housing and London funds within the portfolio. The amounts “called “ by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

# 11. GOVERNANCE COMPLIANCE STATEMENT

## Introduction

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

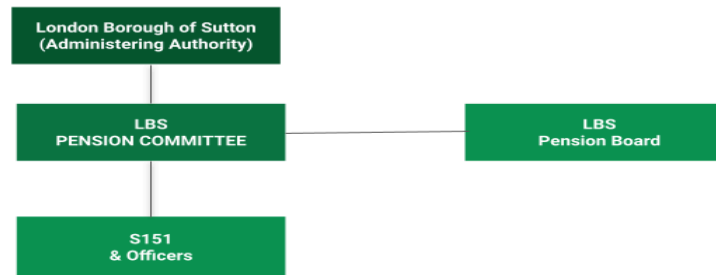
- Part 1 of this statement relates to the arrangements for pension fund administration.
- Part 2 relates to the arrangements for the new Local Pension Board, a stand-alone body.

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

## Governance Framework

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





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

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

### Governance Compliance - Pension Fund Committee

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

Requirement	Compliance	Comment
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the	Compliant	The Council Constitution clearly sets out that responsibility for the management of the Pension Fund which is discharged through a formal decision-making

appointing council.		committee. The Pensions Committee also have a separate governance working document which contains details on the roles and responsibilities of the Committee.
Representatives of participating LGPS employers, and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Committee approved representatives of both employers and scheme members to be members of the Pension Committee.
Where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Council does not have a secondary Committee or Panel.
Where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The Council does not have a secondary Committee or Panel.
<b>Representation</b>		
All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: employing authorities (e.g. scheme employers),	Compliant	The Committee approved representatives of both employers and scheme members to be members of the Pension Committee. The Committee has not

<p>scheme members (including deferred and pensioner scheme members), independent professional observers, expert advisors (on an ad-hoc basis).</p>		<p>appointed an independent professional observer but has appointed expert advisors who can attend Committee meetings when required.</p>
<p>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.</p>	<p>Compliant</p>	<p>All members are treated equally regarding access to papers, meetings and training. They are given full opportunity and encouragement to contribute to the decision making process.</p>
<p>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.</p>	<p>Compliant</p>	<p>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.</p>
<p>Voting</p>		
<p>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.</p>	<p>Compliant</p>	<p>The policy on voting rights is clear and transparent. All elected members on the Pension Committee have equal voting rights, the Council's wider constitution does not yet provide voting rights for non-elected members of committees.</p>
<p>Training / Facility Time / Expenses</p>		

In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	The Committee and the Board have adopted the CIPFA Knowledge and Skills Framework and an annual training plan for each body exists. Members have equal access to training and reimbursement of expenses to enable them to fulfil their roles and responsibilities.
Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The Fund's Training Policy applies equally to all members of the Pension Committee and Pension Board.
<b>Meetings (Frequency / Quorum)</b>		
An administering authority's main committee or committees meet at least quarterly.	Compliant	The Pension Fund Committee meets with a quorum at quarterly intervals as required by its terms of reference.
An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Council does not have a secondary Committee or Panel.
An administering authority who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be	Compliant	There are stakeholder representatives on the Committee. Consultation with key stakeholders takes place.

represented.		
<b>Access</b>		
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.
<b>Scope</b>		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Committee's terms of reference enable it to consider any matter relevant to the Pension Fund. Wider scheme issues are evident in policy statements.
<b>Publicity</b>		
Administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	Compliant	The Governance Policy and Communications Policy are published on the Council's website along with details of planned meetings of the Pension Committee that are open to stakeholders.

## Governance Compliance - Pension Board

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

		<p>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.</p>
Code of Conduct		
<p>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.</p>	<p>Compliant</p>	<p>Board members are subject to the code of conduct for Board members.</p>
Voting Rights		
<p>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</p>	<p>Compliant</p>	<p>The Board consists of 6 voting members, (3 employer and 3 scheme member representatives) and an independent Chair who is not entitled to vote. Other members do not have voting rights on the Board.</p>

other member do not have voting rights on the Board.		
<b>Conflicts of Interest</b>		
The terms should refer to the requirement for the Board to always act within the terms of reference. The Local Pension Board should have a conflicts policy for its members and that members should abide by the policy and provide information that the Administering Authority may reasonably require from time to time to ensure that members do not have a conflict of interest.	Compliant	The term provides the purpose, scope and administrative procedures for the Board and requires the Board at all times to act in a reasonable manner in the conduct of its purpose and abide by the conflicts policy and code of conduct. All members of the Board must declare on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.
<b>Appointment of a Chair / Vice Chair</b>		
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.
<b>Role of Advisers</b>		
The terms should set out the role of professional advisers, or other advisors to the Board and the process for their appointment and	Compliant	The Board may be supported through the appointment of advisers and can consult with such advisers to the Board and



<p>agreeing their fees. In addition the process for the Board accessing existing advisors to the Administering Authority should also be set out.</p>		<p>on such terms as it shall see fit within the budget for the Board that is met from the Fund. The Chair is required to notify the Administering Authority of any proposed use of the existing advisors to the Pensions Committee or of the intention to consult with other advisers.</p>
<p><b>Role of Officers</b></p>		
<p>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.</p>	<p>Compliant</p>	<p>The role of officers is to provide support to the Board. This includes support finance, pension administration and secretarial support.</p>
<p><b>Administration of meetings including data protection</b></p>		
<p>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.</p>	<p>Compliant</p>	<p>The Board meets a minimum 4 times each year. The chair of the Board with the consent of the Board membership may call additional meetings. The agenda notice and supporting papers must be issued at least 5 clear working days in advance of a meeting except in the case of matters of urgency. Any urgent items of business must be agreed by the Chair and be of such matter that cannot wait until</p>

		<p>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.</p>
<b>Quorum</b>		
<p>The terms should specify a quorum for meetings and in particular whether the quorum should include a minimum number of employer and member representatives.</p>	<p>Compliant</p>	<p>A meeting is only quorate when at least one employer member representative, one employer representative and the Independent Chair are present. Substitute members are included within the quorum. A meeting that becomes inquorate may</p>

		continue but any decisions will be non-binding.
<b>Attendance Requirements</b>		
The terms should specify the requirements for attending meetings and the consequences of continued failure to attend Board meetings.	Compliant	Representatives should endeavour to attend all meetings and are required to attend at least 2 out of 4 meetings each year. Board membership may be terminated prior to the end of the term of office due to a Board member no longer being able to demonstrate their capacity to attend and prepare for meetings or to participate in required training.
<b>Role of Substitutes</b>		
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.
<b>Creation of Working Groups / Sub-Committees</b>		
The terms should specify whether the Board has the power to set up working groups or sub-committees.	Compliant	The Board may establish sub-committees.

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

<p>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.</p>		<p>or concerns to the Pension Committee.</p> <p>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.</p> <p>Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee and has not been rectified within a for a reasonable period of time it is under an obligation to escalate the breach. The appropriate internal route for escalation is to the Monitoring Officer and / or the Section 151 Officer.</p> <p>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</p>
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		<p>members are also subject to requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistleblowing policy].</p> <p>Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report.</p> <p>Board agendas and minutes and training and attendance logs may be published using the following means: on the Fund's website, as part of the Fund's own annual report; as part of the Governance Compliance Statement.</p>
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## 12. INVESTMENT STRATEGY STATEMENT

### Introduction and background

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

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

The ISS, which was previously approved by the Committee on 13 December 2022, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons as it considers appropriate.

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

## 13. FUNDING STRATEGY STATEMENT

This document sets out the [Funding Strategy Statement](#) (FSS) for the London Borough of Sutton Pension Fund. The London Borough of Sutton Pension Fund is administered by Sutton Council, known as the administering authority. Sutton Council worked with the fund’s actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023. There’s a regulatory requirement for Sutton Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact [skemployers@sutton.gov.uk](mailto:skemployers@sutton.gov.uk).

## 14. PENSIONS ADMINISTRATION STRATEGY

### Introduction

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

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

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

There are four sections of the strategy and those are:

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



## Roles and deadlines

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

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

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

Publish an investment strategy statement pursuant to <a href="#">regulation 7</a> of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016	At least every three years
Publish a governance compliance statement pursuant to <a href="#">regulation 55</a>	At least every three years
Produce the business strategy for the fund	Every three years
Support the Pensions Committee/Panel and the Pension Board	Quarterly
Maintain the fund risk register	Quarterly
Manage fund cash and bank accounts	As required
Monitor fund investments and performance reporting	At least quarterly
Complete the SF3 and other investment returns	Annually and as required
Complete the quarterly Office for National Statistics financial survey of pension schemes	Quarterly
Monitor the financial strength of scheme employers	Annually

Sign off admission agreement terms regarding the financial arrangements between the parties	As required
<b>Shared Pensions Administration Service</b>	
Publish annual benefit statements to all active and deferred members via <a href="#">Pensions Online</a>	31st August
Publish pensions saving statements to scheme members that may have breached their annual allowance	6th October
Set up and amend admission agreements for admitted bodies	As soon as practicable
Manage the internal dispute resolution procedure	In accordance with the procedure
Apply the annual pensions increase as directed by HM Treasury	April pensioner payroll cut-off
Submit a quarterly tax return to HM Treasury and pay the required tax charges	14th day of the second month following the end of the relevant period
Maintain a membership database	Not applicable
Undertake an annual data review and complete The Pension Regulator scheme return notice	November, as directed by The Pension Regulator

Process tasks in accordance with the performance standards	See table below
<p>Maintain a 'breaches of law' register and notify The Pension Regulator of any materially significant breaches, which may result from:</p> <ul style="list-style-type: none"> <li>● A failure to issue annual benefit statements or pension savings statements in time</li> <li>● Errors and omissions identified by the internal dispute resolution procedure</li> <li>● Scheme employers failing to pay contributions on time or accurately</li> <li>● Other breaches of a legal requirement</li> </ul>	As soon as practicable
Provide information and manage the production of admission, cessation and IAS19/FRS102 (financial statement) reports via the fund actuary and share with those reports with scheme employers	As required
Calculate pensionable pay and determine a scheme member's final pay, when required	This is a scheme employer function by default, however, the shared pensions administration service will calculate this on behalf of scheme employers, unless a scheme employer wishes to do so

	themselves
<b>Shared HR Service</b>	
Pay pensioners their monthly LGPS benefits	29th day of the month for Kingston pensioners and the last Thursday of the month for Sutton pensioners.
Issue pension payslips in March, April and if the net monthly pension changes by £5 or more	Issued on the relevant pay date.
<b>Scheme employers</b>	
Submit the monthly contributions return in the <a href="#">required format</a>	19th day of the month after which the deductions are made
Pay the monthly contributions to the fund pursuant to the <a href="#">Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014</a>	Payment received by 19th day of the month after which the deductions are made
Submit an annual return in the <a href="#">required format</a>	7th May
Calculate and pay redundancy and/or severance payments	As soon as practicable
Provide the data required for FRS17 (retirement benefits) calculations if requested	20 working days prior to the accounting date (ie 31st March, 31st July, 31st August etc).
Provide any additional data required for	As soon as practicable

interim and/or cessation valuations	
Publish a statement of policy about the exercise of discretionary functions pursuant to <a href="#">regulation 60</a>	Within six months of becoming a scheme employer
Admit its employees into LGPS	By their starting date or auto enrollment date
Inform us about new scheme members, members leaving the scheme, or changes to employment (working hours, unpaid leave, unauthorised absences, reductions in pay and 50/50 scheme elections) using the <a href="#">required form or template</a>	20 working days after their starting date, leaving date or date of the change
Give notice of a scheme member's intention to retire	20 working days prior to the intended retirement date
Make the first instance decision about an ill-health retirement following receipt of the independent registered medical practitioner's report	As soon as practicable
Respond to general queries from the administering authority	10 working days
Respond to errors or missing information identified by the administering authority	20 working days or sooner if required

Pay invoices for any <a href="#">recoverable additional costs</a>	30 calendar days from the invoice date
Commence the deduction of additional contributions (APCs or AVCs) following an election from the scheme member or instruction from the administering authority	As soon as practicable
<b>Scheme members</b>	
Use <a href="#">Pensions Online</a> to: <ul style="list-style-type: none"> <li>● calculate a retirement quotation (over 55s only)</li> <li>● update your personal details</li> <li>● view your service, earnings and contributions information</li> <li>● view your annual benefit statements</li> </ul>	Not applicable
Complete an expression of wish form for any potential death grant payment	Not applicable
Give notice to their scheme employer of an intention to retire	60 working days prior to the intended retirement date
When joining, complete a previous service form to notify the administering authority about any existing LGPS pension benefits	1 year from date of joining
<b>Fund actuary</b>	
Undertake the triennial valuation (including the recommended contribution schedules) and annual summary valuations	Every 3 years (next due 2022) and annually

Produce admission, cessation, conversion and IAS19/FRS102 (financial statement) reports	As required
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## Performance standards for processing tasks

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

Process	Service target	Overall process target	Legal deadline
Send a notification of joining to new scheme member	20 working days from receipt of all information	40 working days from date of joining	Two months from date of joining the scheme
Inform leaving scheme member of their deferred benefits or contribution refund	30 working days from receipt of all information	40 working days from date of leaving	No more than two months from date of initial notification
Provide transfer in quote to scheme member	15 working days from receipt of all information	40 working days from member's initial request	Two months from the date of request
Provide transfer value for	20 working days	60 working days	Three months



transfer out or divorce proceedings	from receipt of all information	from date of request	from date of request
Notify scheme member of their final retirement benefits	10 working days from receipt of all information	20 working days from date of retirement	One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age
Provide retirement quotation to scheme member	20 working days from receipt of all information	40 working days from date of request	No more than two months from date of request unless there has already been a request in the last 12 months
Notify dependants of their death benefits	10 working days from receipt of all information	40 working days from date of death	No more than two months from date of becoming aware of death
Answer general query correspondence	10 working days from receipt of correspondence	Not applicable	Not applicable

## Communication statement

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

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

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

### Provision of information and publicity about the scheme

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

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

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

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

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

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

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

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

## **Forms and templates for scheme employers**

### Forms

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

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

## Templates

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

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

## **Sharing information with external bodies**

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

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

## Recoverable additional costs

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

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

### Performance penalties

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

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

The penalties will be calculated as follows:

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

Late submission of annual return	According to the roles and deadlines section	£250 plus £50 per working day
Late submission of monthly contributions return	According to the roles and deadlines section	£125 plus £25 per working day
Poor quality of data in annual return or failure to provide information in the required format	More than 5% of data lines requiring amendment or deletion	Additional time spent to resolve at £125 per half day
Regulator fines as a result of scheme employer	Not applicable	The fine amount plus £100

### Actuarial and other fees

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

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

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

### **Interest on late payments**

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

### **Divorce proceedings**

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

### **Strain costs**

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

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

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