

LONDON BOROUGH OF SUTTON

PENSION FUND ANNUAL REPORT 2014/15

CONTENTS	PAGE
1. FOREWORD	2
2. MANAGEMENT ARRANGEMENTS	3
3. INVESTMENT POLICY	4-5
4. INVESTMENT PERFORMANCE	6-9
5. STATEMENT OF THE ACTUARY	10-12
6. PENSION FUND ACCOUNTS	13-35
7. AUDITORS CERTIFICATE	36
8. PENSION ADMINISTRATION STRATEGY	37-39

APPENDICES

APPENDIX 1 - Statement of Investment Principles	40-57
APPENDIX 2 - Funding Strategy Statement	58-77
APPENDIX 3 - Governance Compliance Statement	78-91
APPENDIX 4 - Communications Policy	92-96

1. FOREWORD

This Annual Report has been produced to keep pensioners and other interested stakeholders informed about the administration and performance of the London Borough of Sutton Pension Fund, and to comply with regulation 34 of the Local Government Pension Scheme (Administration) Regulations SI2008 No 239.

The Local Government Pension Scheme (LGPS) was established to provide death and retirement benefits for all eligible employees. In 2014/15 the scheme operated as a Career Average Re-valued Earnings (CARE) scheme, with benefits and employee contributions based on actual pensionable pay, whereas in previous years these were based on notional full time annual rate. Benefits are defined in law and inflation-proofed in line with increases in the Consumer Prices Index (CPI). The scheme is operated by designated administering authorities, each maintaining a pension fund and investing monies not needed immediately.

Sutton Council is a designated administering authority and is responsible for the administration of the scheme for London Borough of Sutton (LBS) employees (plus certain scheduled and admitted bodies). The Pensions Committee has delegated responsibility for the management of funds under its supervision. Members of the Pension Committee exercise legal responsibilities as trustees of the Pension Fund on behalf of all of the employers in the fund.

During 2014/15 Central government issued final regulations on governance changes for the LGPS. The main focus of the regulations was the introduction of local Pension Boards. The Sutton Local Pension Board was officially established by Full Council at the meeting held on 2 March 2015. Board members include three employer board representatives, three employee board representatives and one independent chair of the board. The first meeting was held in July 2015.

The responsibility of the Pension Board is to assist the authority in its duties to comply with pension scheme regulations and other legislation relating to the governance and administration of the scheme

Management of the Fund's active investments is delegated to professional investment managers, whose activities are specified in detailed investment management agreements and monitored quarterly. The Fund's managers are regulated by the Financial Conduct Authority (FCA).

The Fund's Investment managers are set individual performance targets and measured against relevant market benchmarks.

Following the implementation of a new investment strategy in late 2012 and a change of bond manager in 2014 from Aberdeen Asset Management to M&G, the Committee has made no further changes to the investment structure of the fund. The advisory services contracts were re-tendered in 2014 and this resulted in Hymans Robertson being replaced by Barnett Waddingham for actuarial services and Hyman's Robertson were re appointed as the investment advisor. The investment performance of the fund has continued to improve and in March 2015 the total value of the fund's investments exceeded £500m.

A full actuarial valuation of the pension fund is undertaken every three years. The last valuation was undertaken as at 31 March 2013.

2. MANAGEMENT ARRANGEMENTS

Administering Authority

London Borough of Sutton

Pension Committee Membership 2014/15

Councillors (Voting Members):

Sunita Gordon (Chair)
Adrian Davey (Vice Chair)
Manuel Abellan
Neil Garratt
Edward Joyce
Nick Matthey

Employer Representative (Non Voting Member):

Brendan Crossan, Sutton Housing Partnership

Officers:

Gerald Almeroth, Strategic Director – Resources (lead Officer for the Pension Fund)
Lyndsey Gamble, Head of Financial Strategy & Planning (maternity leave from December 2014)
Sue Hogg, Head of Financial Strategy & Planning (maternity cover from December 2014)
Lisa Doswell, Treasury & Investments Officer

Employee Representative:

Adam Jordan, Unison

Investment Advisor:

David Walker, Hymans Robertson

Actuary

Geoff Nathan, Hymans Robertson (to July 2014)
Alison Hamilton, Barnett Waddingham (from August 2014)

AVC Provider

Clerical Medical

Auditor

Grant Thornton

Performance Monitoring

WM Company (to December 2014)
Northern Trust (from January 2015)

3. INVESTMENT POLICY

The Council has appointed eleven investment managers under the terms of the Regulations to manage all of the Fund's investments as follows:

The main Bond asset class portfolio was previously managed by Aberdeen Asset Management. During 2014 a decision was taken to terminate this mandate and appoint M&G.

- *Global Equity portfolios - Newton Investment Management Ltd, Harding Loevner Funds Plc, Schroder Investment Management and Legal & General*
Newton, Harding Loevner and Schroder's have discretion to determine individual stock selection and tactical asset allocation within specified control ranges. A performance objective of 2% per annum (gross of fees) above the relevant benchmark over a three year rolling period is applied to Newton and similarly for Harding Loevner and Schroder's at 3% per annum. Legal & General is a passive investment manager and is required to match the benchmark.
- *Pooled Multi Asset portfolios – Baillie Gifford & Co and Pymfords International*
These investment managers invest in a wide variety of different asset classes. A performance objective of 3% per annum (gross of fees) above the relevant benchmark over a three year rolling period is in place for both managers.
- *Property only portfolio - BlackRock*
The investment manager holds property in pooled funds. Their performance objective is to outperform the relevant benchmark.
- *Bonds only portfolio-M&G*
The investment manager holds bonds in pooled funds. A performance objective of 0.75% (gross of fees) above the relevant benchmark over a three year rolling period is applied. Their performance objective is to outperform the relevant benchmark.
- *Infrastructure only portfolio – Partners Group (UK) Ltd*
The investment manager invests in global infrastructure directly and through secondary and primary investments in infrastructure partnerships. The Fund targets an absolute return of 8% per annum.
- *Financing Fund – M&G UK Companies Financing Fund*
The financing fund provides medium term debt to UK companies from the FTSE 350. The fund targets a return of 10% per annum net of fees. A management fee of 0.5% is payable on drawn amounts.
- *Real Estate Fund of Funds – AVIVA Investors*
This fund is a diversified UK property fund portfolio with the objective of outperforming the benchmark by maximising total return through capital growth and income return.

The investment strategy is set for the long-term, but is reviewed from time to time to ensure that it remains appropriate to the Fund's liability profile. Sutton Council has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2015 the benchmark was:

• Global Equities	42%
• UK Equities	13%
• Absolute return	15%
• Bonds	20%
• Property	<u>10%</u>
	<u>100%</u>

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy.

Under the Council's current investment strategy a strategic target benchmark allocation of 42% of the total fund value is invested in global equities managed in separate, equal sized portfolios by Newton, Harding Loevner and Schroder's. 13% of the fund is invested in UK equities by L&G and 15% of the fund is split equally in absolute return pooled vehicles managed by Baillie Gifford and Pyrford. 20% of the fund is targeted in bonds through M&G, 10% in Property, split between 6% with BlackRock and 4% with AVIVA. There is a long term strategic target to bonds of 15% and 5% to infrastructure, but this will take some time to implement.

4. INVESTMENT PERFORMANCE

CURRENT INVESTMENT STRATEGY BENCHMARKS AND TARGETS

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

Manager	Mandate	Tactical Benchmark	Performance Target
Newton	Global equity pooled fund - active	MSCI All Countries World NDR Index	2% above benchmark over rolling 3 year period (gross of fees)
Harding Loevner	Global equity pooled fund – active	MSCI All Countries World NDR Index	3% above benchmark over rolling 3 year period (gross of fees)
Schroder	Global equity pooled fund - active	MSCI All Countries World NDR Index	3% above benchmark over rolling 3 year period (gross of fees)
Legal & General	UK Global equities pooled fund – passive	UK - FT All Share Index	To track the benchmark
Baillie Gifford	Pooled multi asset	3 month LIBOR + 3%	3% above benchmark over rolling 3 year period (gross of fees)
Pyrford	Pooled multi asset	3 month LIBOR + 3%	3% above benchmark over rolling 3 year period (gross of fees)
Aberdeen	Bonds	3% FTSE UK Gilts > 15 yrs, 10% BAML > 10 yrs, 2% Citigroup WGBI, 3% 20year inflation swap, 2% FSTE A UK Gilt Gov Index-Linked	0.75% above benchmark over rolling 3 years period (gross of fees)
M&G	Bonds - Alpha Fund	3 Month LIBOR + 3%	3 Month LIBOR + 3 to 5 %.
M&G	Bonds - Index Linked	FTSE A British Government Over 5 Years Index-Linked	0.75% above benchmark over rolling 3 years period (gross of fees)
RREEF/ BlackRock	Pooled Property Funds	IPD UK All Pooled Property Funds Index	To outperform the benchmark
AVIVA	Property Fund of Funds	IPD UK All Pooled Property Funds Index	To outperform the benchmark
Partner's Group	Infrastructure	No tactical benchmark, but targets an absolute return of 8% per annum	No outperformance objective
M&G	UK Companies Financing Fund	No tactical benchmark, but assessed against 7 day LIBID and targets return of 10% pa net of fees	No outperformance objective

London Borough of Sutton Investments held at 31 March 2015

The table below shows the value of holdings with each of the fund managers as at 31/03/15.

Fund Manager	Value at end 31/03/14 £'000	Value at end 31/03/15 £'000
Total Equities	245,768	285,971
Legal & General	56,842	60,645
Newton	63,680	77,220
Harding Loevner	60,330	73,673
Schroder	64,916	74,433
Bonds	74,266	81,005
M&G bonds	74,266	81,005
Pooled Multi Asset	73,559	79,286
Baillie Gifford	37,376	40,606
Pyrford	36,183	38,680
Property	29,024	32,330
Blackrock	18,838	20,744
AVIVA	10,186	11,586
Alternatives	9,043	11,125
Partner's Group*	3,231	6,357
M&G – Co's Financing Fund	5,812	4,768
Market value of investments	431,660	489,717
Cash **	16,790	16,730
Total Assets	448,450	506,447

The tables below show the long term performance of each fund manager by asset class as at 31/03/15.

Equity performance

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception *	Fund Return Since Inception *	Variance
	%	%	%	%	%	%
L&G	6.6	6.6	0.0	8.2	8.2	0.0
Newton	18.4	21.0	2.6	17.0	19.3	2.3
Harding Loevner	18.4	21.8	3.4	17.0	16.8	-0.2
Schroders	18.4	14.0	-4.4	17.0	17.1	0.1

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

During the twelve months ended 31 March 2015, L&G matched the benchmark (benchmark 6.6%, actual 6.6%). Newton outperformed the benchmark by 2.6% (benchmark 18.4%, actual 21.0%), Harding Loevner outperformed the benchmark by 3.4% (benchmark 18.4%, actual 21.8%) and Schroders underperformed the benchmark by 4.4% (benchmark 18.4%, actual 14.0%).

Pooled Multi-Asset Performance

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception *	Fund Return Since Inception *	Variance
	%	%	%	%	%	%
Baillie Gifford	3.6	8.0	4.4	3.6	6.7	3.1
Pyrford	3.6	6.9	3.3	3.6	4.3	0.7

* since inception is 2012

During the twelve months ended 31 March 2015 Baillie Gifford has outperformed the benchmark by 4.4% (benchmark 3.6%, actual 8.0%) and Pyrford has outperformed the benchmark by 3.3% (benchmark 3.6%, actual 6.9%).

Property Performance

During the twelve months ending 31 March 2015, Blackrock underperformed the benchmark by 1.9% (benchmark 16.6%, actual 14.7%) and AVIVA matched the benchmark (benchmark 16.6%, actual 16.6%).

Property Performance

Manager	Benchmark Return 1 Year	Fund Return 1 Year	Variance	Benchmark Return Since Inception *	Fund Return Since Inception *	Variance
	%	%	%	%	%	%
RREEF/Blackrock	16.6	14.7	-1.9	3.5	-0.3	-3.8
AVIVA	16.6	16.6	0.0	8.5	8.8	0.3

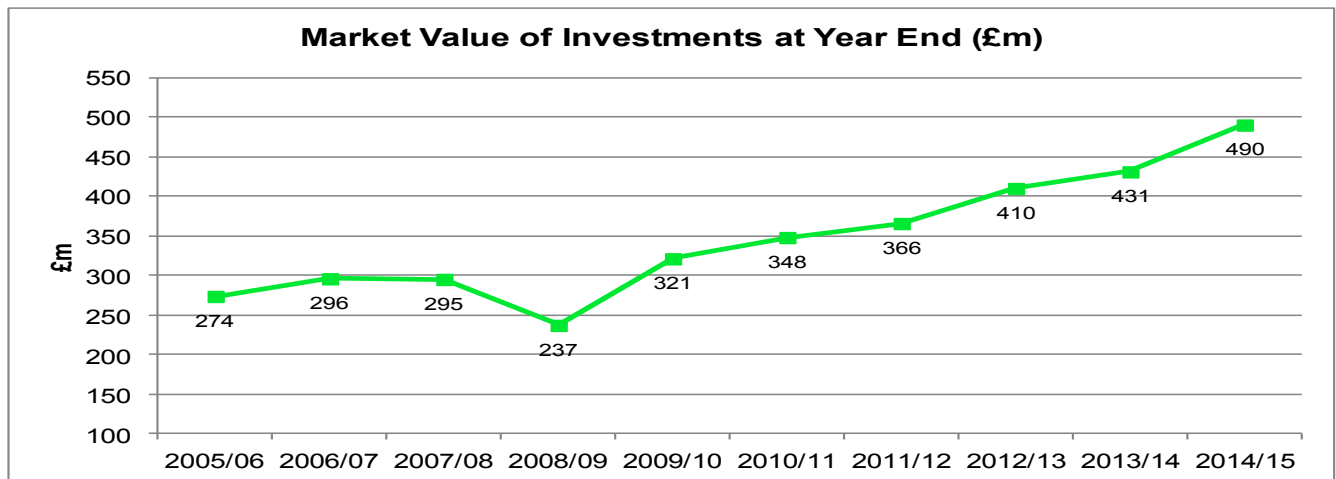
* since inception for RREEF/BlackRock is 2005 and for AVIVA it's 2011

Alternatives Performance – longer term

Manager	Fund Return 1 Year	Fund Return Since Inception
	%	%
Partner's Group	4.5	2.4
M&G	4.9	4.9

Partner's Group and M&G are not measured as part of the fund's overall strategic benchmark. Due to the way investment is made with Partner's Group, it is not meaningful to make comparisons with their performance target at this stage. During the twelve months ending 31 March 2015, M&G has returned 4.9% and since inception they have returned 4.9%.

The market value of assets held by the Fund Managers over the last 10 years is shown below (including new money added to the fund but excluding cash held by the Council).



From 1998 – 2005 the Fund was managed by Henderson Global Investors and Deutsche Asset Management (formerly Morgan Grenfell). Each fund manager had 50% of the total Fund value invested in Equities, Bonds and Property (balanced mandate).

In 2004, 10% of the overall Fund was established as a separate property mandate managed by Deutsche Property Asset Management and transferring resources from Henderson Global Investors and the main multi asset Deutsche Fund.

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

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

During June 2012 the Fund appointed Partner's Group as an infrastructure manager.

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

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

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

5. ACTUARIAL STATEMENT 2014/15

The most recent full actuarial valuation of the pension fund was carried out by Hymans Robertson as at 31 March 2013. Following a procurement exercise in 2014 Barnett Waddingham was appointed as the fund's new Actuary. The following statement sets out Barnett Waddingham's updated funding position.

London Borough of Sutton Pension Fund

Actuary's Statement as at 31 March 2015

Barnett Waddingham
Public Sector Consulting

06 August 2015

Introduction

The most recent full actuarial valuation of the London Borough of Sutton Pension Fund was carried out by Hymans Robertson LLP at 31 March 2013. The results were published in the triennial valuation report dated March 2014. This statement comments on the main factors that have led to any changes in the funding position since the full valuation.

2013 valuation

The results of the actuarial valuation of the Fund as at 31 March 2013 were as follows:

- The funding level was calculated to be 67% i.e. the value of the accumulated assets represented 67% of the value of the accrued liabilities of Fund as at the valuation date. The resulting deficit was £215 million.
- The common contribution rate was set at 34.5% of payroll assuming the funding level was to be restored over a 22 year period. This is the average contribution rate required from employers to restore the funding level to 100% over the next 22 years.
- Each employing body pays contributions to reflect its own particular circumstances and funding position within the Fund. The required contribution is a percentage of payroll which is intended to cover the cost of new benefits plus a further amount (in some cases expressed as an annual lump sum payment) to pay for the employer's share of the deficit.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report and were set in accordance with the Fund's funding policy as set out in its FSS. Some employers had their contribution rate stabilised following a modelling exercise and these are listed in the valuation report.

Key financial assumptions

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

The benefits were valued and the contribution rates calculated using the Projected Unit Method using a market related approach for consistency with the valuation of the Fund assets at their market value as follows.

Assumption	31 March 2013
Discount rate	4.6% p.a.
Rate of increase in pay	4.3% p.a.
Price inflation/pension increases	2.5% p.a.

Updated position

Since March 2013, investment returns have been better than assumed at the 2013 triennial valuation.

The liabilities will have increased slightly due to the accrual of new benefits as well as a decrease in the real discount rate underlying the existing valuation funding model.

Under the existing funding model we also expect the liabilities to have increased owing to the reduction in gilt yields in the period to 31 March 2015. We will therefore be proposing a move to our economic funding model at the next valuation and under this scenario we expect the funding levels to more stable over the longer term.

The next actuarial valuation is due as at 31 March 2016 and will be completed by the current actuary, Barnett Waddingham who replaced Hymans Robertson in 2014. The resulting contribution rates required by the employers will take effect from 1 April 2017.



Alison Hamilton FFA
Partner, Barnett Waddingham LLP

6. PENSION FUND ACCOUNTS

**London Borough of Sutton - Statement of Accounts 2014/15
PENSION FUND ACCOUNTS**

Pension Fund Accounts

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

**London Borough of Sutton Pension Fund Accounts
for the Year Ended 31 March 2015**

2013/14 £'000		Notes	2014/15 £'000
Contributions and Benefits			
Contributions Receivable:			
19,568	From Employers	2	21,611
5,377	From Employees or Scheme Members	2	5,797
3,182	Transfers In	4	1,033
28,127	Sub-Total Income		28,441
Benefits Payable:			
17,712	Pensions	3	18,729
2,998	Lump Sum Retirement Grants	3	3,953
439	Lump Sum Death Benefits	3	840
Payments to and on account of Leavers:			
5	Refund of Contributions		34
4,304	Transfers Out	4	2,990
2,816	Management expenses	6f	3,236
28,274	Sub-Total Expenses		29,782
(147)	Net Addition from Dealings with Scheme Members		(1,341)
Return on Investments			
6,285	Investment Income	6d	5,450
(13)	Taxes on Income	6e	(19)
14,654	Increase/(Decrease) in Market Value of Investments		54,820
20,926	Net Return on Investments		60,251
20,779	Net Increase/(Decrease) in Fund During Year		58,910
427,097	Opening Net Assets of the Scheme		447,876
447,876	Total Net Assets at 31 March		506,786
Net Assets Statement			
Investment Assets:			
265,415	Equities		308,293
48,911	Fixed Interest Securities - Public Sector		34,947
61,512	- Other		58,703
8,002	Index Linked Securities - Public Sector		34,574
29,448	Property Fund		33,143
11,047	Other		14,825
424,335	Sub-Total Securities	6b	484,485
5,812	Loans to businesses	6b	4,768
3,283	Cash		1,452
703	Debtors		404
434,133	Total Investment Assets	6c	491,109
Current Assets			
13,506	Cash in Hand		15,277
808	Debtors		965
(571)	Current Liabilities		(565)
447,876	Total Net Assets at 31 March		506,786

1. Membership

The Fund is established under the provisions of the Superannuation Act 1972 to provide pensions and other retirement benefits for the Council's employees (other than teachers) and the Scheduled and Admitted Bodies detailed below. The fund is administered by the Council.

Scheduled Bodies:

- Carshalton College
- Sutton Housing Partnership
- Academy Schools (17)

Admitted Bodies:

- Bandon Hill Joint Cemetery Committee
- Citizens Advice Bureaux - Beddington & Wallington
- Sutton
- St Helier (office now closed)
- Housing21
- H21 (Dementia Voice)
- ThamesReach
- The former Sutton and District Water Company (no current contributors)
- Sports and Leisure Management
- Community Options
- Community Drug Service
- Compas Catering (Overton Grange Academy)
- Eldercare
- Mitie (facilities management)

As at 31 March, membership of the fund comprised

31 March 2014		31 March 2015
No.		No.
4,101	Employees & Council Members	4,044
3,191	Pensioners and dependants	3,340
3,867	Former Employees - deferred benefits	4,138
11,159	Total	11,522

2. Contributions to the Fund

Scheme members make contributions to the Fund by deductions from earnings. From 1 April 2014 with the introduction of the LGPS 2014 Career Average Revalued Earnings (CARE) scheme, revised contribution banding rates of between 5.5% and 12.5% applied. These are assessed on a monthly basis based on the members' (annualised) actual pensionable pay in each pay period. Following the 2013 actuarial valuation, the employers' stabilised contribution rate was set at 22.5% of employees' earnings (17.4% future service rate and a deficit contribution of £3,318k).

For Scheduled Bodies the employers' rates of contribution were:

- Carshalton College – 18.2% of £319k
- Sutton Housing Partnership – 19.5% of £155k,
a capital payment for the deficit contribution

For Admitted Bodies the employers' rates of contribution were:

- Bandon Hill Joint Cemetery Committee – 30.6%
- Citizens Advice Bureaux – 21.0% of £31k
- ThamesReach – 20.0%
- Sports and Leisure Management – 18.7%
- Community Options – 23.9%
- Community Drug Service – 25.5%
- Compass Catering – 21.8%
- Eldercare – 18.0%
- Mitie – 23.7%

Contributions to the Pension Fund were as follows:-

2013/14		2014/15
£'000		£'000
	Employers' Contributions	
14,818	London Borough of Sutton excl. Academy Schools	16,011
2,755	London Borough of Sutton - Academy Schools	3,070
364	London Borough of Sutton - Recovery of Early Retirement Costs	535
567	Deficit Funding Contributions (SHP & Carshalton College)	731
	Scheduled Bodies	
275	- Carshalton College	274
586	- Sutton Housing Partnership	657
203	Admitted Bodies	333
19,568		21,611
	Active Members' Contributions	
4,267	London Borough of Sutton excl. Academy Schools	4,547
738	London Borough of Sutton - Academy Schools	827
	Scheduled Bodies	
106	- Carshalton College	96
215	- Sutton Housing Partnership	239
51	Admitted Bodies	88
5,377		5,797

3. Analysis of Benefits Payable

2013/14		2014/15
£'000		£'000
19,833	London Borough of Sutton excl. Academy Schools	22,001
272	London Borough of Sutton - Academy Schools	283
	Scheduled Bodies	
383	- Carshalton College	365
552	- Sutton Housing Partnership	686
109	Admitted Bodies	187
21,149	Total Benefits Payable	23,522

4. Transfers

This represents the transfer of pension liabilities to and from LB Sutton's pension fund.

	2013/14		2014/15	
	Transfers Paid	Transfers received	Transfers Paid	Transfers received
	£'000	£'000	£'000	£'000
Group transfers	1,405	1,088	0	0
Individual transfers	2,899	2,094	2,990	1,033
	<u>4,304</u>	<u>3,182</u>	<u>2,990</u>	<u>1,033</u>

5. Accounting Policies

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits as at 31 March 2015. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2015. The actuarial present value of promised retirement benefits, valued on an International Accounting Standards (IAS) basis, is disclosed in Note 9 of these accounts.

The financial statements have been prepared on a going concern basis and in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, which is based upon International Financial Reporting Standards (IFRS). In particular:

a) Valuation of Investments

i) Market quoted investments

Investments have been recognised at market value, so far as these have been ascertainable, with any surplus or deficit on valuations being credited directly to the fund balance.

ii) Fixed interest securities

Market values for all securities (current bid price) are determined by prices quoted on stock exchanges at 31 March 2015.

iii) Unquoted investments

Where market values have not been available, the investments have been recognised on an appropriate fair value basis. There is a risk that these investments may be under or overstated in the accounts, however this would not be likely to have a material impact on the value of the fund. Unitised insurance policy based investments, which are managed by L&G are valued by the manager at bid price, reflecting the bid value of the underlying assets. These

prices are not quoted on recognised investment exchanges. Unitised pooled funds also include global equity funds with Newton, Schroders and Harding Loevner, absolute return funds with Pymford and Baillie Gifford, a UK property fund with BlackRock and a bond fund with M&G. None of these investments are quoted, however the underlying assets of these funds are quoted.

A UK property fund of funds investment held with AVIVA is also a pooled fund and is therefore not determined by valuation of listed exchanges, but is valued through calculation of the latest available net asset value of the underlying investments.

Investments held with a UK companies financing fund with M&G are unquoted and not listed on an exchange. The underlying net assets of the fund are valued on an amortised cost basis. This is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Direct investments by infrastructure manager, Partner's Group are valued at cost during construction and the ensuing initial period, after which direct equity investments are valued using a discounted cash flow or multiple approach, while direct debt investments are held at par. Primary and secondary partnership investments are valued based on latest available net asset values.

b) Non investment assets/liabilities

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

c) Investment income

i) Interest Income

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

ii) Dividend Income

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

iii) Distributions from pooled funds

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

iv) Movement in net market value of investments

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

d) Investment management expenses

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

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

One equity fund manager incorporates a performance related element to their fee structure. This applies when they have outperformed the relevant benchmark by more than 0.25%, in which case an additional fee of 20% of the performance value is payable.

Investment consultant fees are included in management expenses.

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

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

f) Fund manager assets denominated in non-sterling currencies are translated to sterling by the asset custodian using its foreign exchange rates for the balance sheet dates. For reporting purposes the custodian revalues all foreign currency holdings back to Sterling on a daily basis using the WM/Reuters 4 p.m. rate. Where applicable, foreign exchange transactions are executed by the investment manager using their own execution policy. In practice the only manager who had discretion to execute FX deals in 2014/15 was Aberdeen, where they managed funds denominated in both GBP and USD. These accounted for 3 of 15 FX deals executed by the fund over the year. This mandate is no longer active and the discretion is therefore cancelled. During the year there was one EUR purchase with the custodian to fund capital calls in a EUR denominated fund managed by Partners Group and 11 fx's executed on the transition account that included varying currencies. However it's worth noting that all these transaction purchased Sterling or Euro's. Any pending FX transactions are accounted for as such in the custodian holdings and transaction reports.

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

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

The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about these assumptions.	The effects on the net pension fund liability for the London Borough of Sutton pension fund can be measured. For example a 0.1 increase in the discount rate assumption would result in an approximate reduction of £14m in the Council's pension liability; a one year increase in member life expectancy would reduce the liability by approximately £29m and a 0.1% increase in the salary increase rate would increase the liability by approximately £2m.
Unquoted investments	Some investments, such as private equity, pooled property and company financing funds are valued using bases which are not quoted and therefore there is a degree of estimation involved in the valuation	The total of investments which are valued on an unquoted basis is £22.2m. There is a risk that these investments may be under or over-stated in the accounts.

6. Fund Management

a) Allocation of Assets

The Sutton Fund is mandated to eleven different fund managers;

Pooled Global Equity Funds;
 Legal & General (L&G)
 Newton Investment Management (Newton)
 Harding Loevner
 Schroder

Pooled Absolute Return Funds;
 Baillie Gifford
 Pyrford

Bonds;
 M&G

UK Pooled Property Funds;
 Aviva Investors
 BlackRock

Alternative Funds;
 M&G UK Companies Financing Fund
 Partners Group (infrastructure)

A strategic target benchmark allocation of 42% of the total fund value is invested in global equities managed in separate, equal sized portfolios by Newton, Harding Loevner and Schroders. 13% of the fund is invested in UK equities by L&G and 15% of the fund is split equally in absolute return pooled vehicles managed by Baillie Gifford and Pyrford. 20% of the fund is targeted in bonds by Aberdeen, 10% in Property, split between 6% with BlackRock and 4% with AVIVA. Fees negotiated with fund managers for their services are on a sliding scale related to the overall value of funds managed, and include a performance element.

The market value of securities held by the fund managers at 31 March 2015 totalled £489.253 million split as follows:

	£m	% of Investment Assets
M & G Bonds	81.005	16.6%
Newton	77.220	15.8%
Schroders	74.942	15.3%
Harding Loevner	73.673	15.1%
Legal & General	60.494	12.4%
Baillie Gifford	40.640	8.3%
Pyrford	38.680	7.9%
Blackrock	20.329	4.1%
AVIVA	11.586	2.3%
Partners Group	5.916	1.2%
M&G Financing Fund	4.768	1.0%
Total	489.253	100.0%

Fund's assets are held in unitised form. Excluding equities, the largest unitised holding is M&G's Alpha Opportunities Fund, representing 9.2% of net assets. There is no other individual holding of more than 5%.

b) Analysis of Investments

31/03/2014		31/03/2015
£'000		£'000
	<u>Equities:</u>	
80,725	UK Quoted	86,610
184,690	Overseas Quoted	221,683
	<u>Fixed Interest Securities:</u>	
	- UK	
28,983	Public sector quoted	23,659
26,269	Corporate quoted	18,733
	- Overseas	
19,928	Public sector quoted	11,288
35,243	Corporate quoted	39,970
	<u>Index linked securities:</u>	
7,417	UK Public sector quoted	33,545
585	Overseas Public sector quoted	1,029
	<u>Property:</u>	
	- UK	
19,261	Property fund quoted:	21,557
	- Overseas	
10,187	Property Unit Trust unquoted	11,586
	<u>Loans to business:</u>	
5,812	Unit Trust unquoted	4,768
	<u>Other:</u>	
7,743	Quoted	8,909
3,304	Unquoted - Private Equity Infrastructure	5,916
430,147		489,253
	Pooled funds - additional analysis:	
	- UK	
	<u>Equities:</u>	
67,733	Unit Trusts	73,333
12,992	Other pooled equities	13,277
	<u>Fixed Interest Securities:</u>	
55,252	Fixed income bonds	42,392
	<u>Index Linked Securities:</u>	
7,416	Indexed linked bond	33,545
	<u>Property:</u>	
18,460	Unit Trust	20,329
801	Other	1,228
	<u>Loans to business:</u>	
5,812	Unit Trust	4,768
	- Overseas	
	<u>Equities:</u>	
117,302	Unit Trust	139,323
67,389	Other pooled equities	82,360
	<u>Fixed Interest Securities:</u>	
55,756	Other	52,287
	<u>Property:</u>	
10,187	Unit Trust	11,586
	<u>Other:</u>	
11,047	Other pooled investments	14,825
430,147		489,253

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

c) Investment Movement Summary

Investment Movement Summary 2014/15	Value at 01/04/2014	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2015
	£m	£m	£m	£m	£m
Equities	285.2	0.6	(0.6)	43.1	308.3
Bonds	117.8	76.9	(75.6)	9.1	128.2
Property	29.7	0.4	(0.3)	3.3	33.1
	412.7	77.9	(76.5)	55.5	489.6
Loans to businesses	5.8	0.3	0	(1.3)	4.8
Other	11.5	3.3	-0.5	0.5	14.8
	430.0	81.5	(77.0)	54.7	489.2
Other investment balances:					
Derivative contracts	0.0	0.0	0.0	0.0	0.0
Cash & Cash Equivalents	3.4			0.1	1.5
Debtors	0.7				0.4
Total Investment Assets	434.1	81.5	(77.0)	54.8	491.1

Comparative Movements in 2013/14	Value at 01/04/2013	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2014
	£m	£m	£m	£m	£m
Equities	245.4	4.5	(0.5)	16.0	265.4
Bonds	124.2	11.2	(17.2)	0.1	118.3
Property	22.5	5.0	(0.4)	2.3	29.4
	392.1	20.7	(18.1)	18.4	413.1
Loans to businesses	6.5	0.3	0.0	(0.9)	5.9
Other	11.4	5.9	(3.3)	(2.9)	11.1
	410.0	26.9	(21.4)	14.6	430.1
Other investment balances:					
Derivative contracts	0.0	0.1	(0.3)	0.2	0.0
Cash & Cash Equivalents	3.1			(0.1)	3.3
Debtors	0.8				0.7
Total Investment Assets	413.9	27.0	(21.7)	14.7	434.1

There are no transaction costs included in the cost of purchases and in sale proceeds.

d) Investment Income (Gross)

31/03/2014 £'000		31/03/2015 £'000
628	Equities	597
1,829	Bonds	1,635
1,128	Property	1622
3,585		3,854
304	Loans to Business	252
2,398	*Other	1344
6,285		5,450

*Other - includes £1.0m of income distributions from M&G

e) Taxes on Income

31/03/2014 £'000		31/03/2015 £'000
0	Tax Withheld - Equities	0
0	Tax Withheld - Bonds	0
0	Tax Withheld - Property	0
(13)	UK Income Tax - Property	(19)
(13)		(19)

f) Management Expenses

31/03/2014 £'000		31/03/2015 £'000
469	Administrative costs	634
2,142	Investment management expenses	2,495
205	Oversight and governance costs	107
2,816		3,236

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

The investment management expenses above includes £121.5k (£106.8k 2013/14) in respect of performance-related fees paid/payable to an investment fund manager.

7. Non-adjusting Post Balance Sheet Event

Information may come to light after the balance sheet date which would cast doubt on the valuation of particular assets or classes of assets at the balance sheet date.

Further, it is possible that fluctuations in the value of assets may have occurred since the balance sheet date. Therefore, the Council has reviewed the latest valuation data available from its main fund managers. This revealed that as at 30 June 2015 the value of investments has decreased by 2.7% (£13.1m).

There have been no events since the 31 March 2015, and up to the date when these accounts were authorised, that require any adjustment to these accounts. .

8. Actuarial Position

Pension Fund regulations require actuarial valuations to be prepared every three years. Hymans Robertson, the Council's actuary (until 2014) carried out an actuarial valuation of the London Borough of Sutton Pension Fund as at 31 March 2013. The valuation showed that Fund assets, which at 31 March 2013 were valued at £430 million, were sufficient to meet 67% of the liabilities (i.e. the present value of promised retirement benefits accrued up to that date). Following a stabilisation exercise, the overall employer contribution rate for LB Sutton broadly remained at 21.5% for 2013-14 and thereafter increased by 1% each year for the next three years.

For 2014/15 to 2016/17 the stabilised contributions paid will be 17.4% of employees' earnings plus £3,318,000 in 2014/15, £4,139,000 in 2015/16 and £5,025,000 in 2016/17 respectively. The stabilised approach, as assessed by the Council's actuary, is structured to make good the deficit over a 22 year period.

Actuarial Assumptions

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

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

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

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

Financial Assumptions

A summary of the main financial assumptions adopted for the 2013 valuation of members' benefits is shown below.

	31 March 2013	
	% p.a. Nominal	% p.a. Real
Financial assumptions		
Discount rate	4.6%	2.1%
Salary increases*	4.3%	1.8%
Price inflation (CPI)/Pension increases	2.5%	-

* Plus an allowance for promotional pay increases

Longevity

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

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Males	Females	Males	Females
2013 valuation - baseline	19.9 years	22.8 years	20.1 years	22.5 years
2013 improvements	24.2 years	26.8 years	22.3 years	24.5 years

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

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

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

The Actuary has calculated the actuarial present value of promised retirement benefits to be £881 million as at 31 March 2015 (£754 million as at 31 March 2014). The Council is required to provide a description of the significant actuarial assumptions made and the methods used in the calculation. This is detailed below.

a) Method

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The Actuary estimates this liability at 31 March 2015 comprises £378 million in respect of employee members, £181 million in respect of deferred pensioners and £322 million in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the Actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefits promised. The Actuary has not made any allowance for unfunded benefits.

b) Assumptions

The assumptions used are those adopted for the Sutton Council's (the administering authority's) IAS19 report as required by the Code of Practice. These are given below. The Actuary estimates that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £92 million.

(i) Financial Assumptions

The Actuary's recommended financial assumptions are summarised below:

Year ended	31 March 2015 % p.a.	31 March 2014 % p.a.
Inflation/Pension Increase Rate	2.4%	2.8%
Salary Increase Rate*	4.2%	4.6%
Discount Rate	3.3%	4.3%

*salary increases are assumed to be 1% p.a. until 31 March 2016, reverting to the longer term assumption shown thereafter.

(ii) Longevity Assumption

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.7 years	25.0 years
Future Pensioners*	23.7 years	27.0 years

* Future pensioners are assumed to be currently aged 45

Please note that the assumptions have changed since the previous IAS 26 disclosure for the Fund.

(iii) Commutation Assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax free cash for post-April 2008 service.

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from the London Borough of Sutton, administering authority to the Fund.

The next formal actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

10. Additional Voluntary Contributions

In accordance with regulation 4 (2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), additional voluntary contributions are not included in the Pension Fund Accounts. AVC's are managed independently by a specialist AVC fund provider, and are invested separately from the fund in the form of personal accounts securing additional benefits on a money purchase basis, for those members electing to pay additional voluntary contributions. Members participating in this arrangement each received an annual statement made up to 31 May 2015 confirming the amounts held to their account and the movements in the year. Note this is an externally provided scheme and valuations are given at the scheme date which is 31 May 2015 and confirming the amounts held to their accounts and the movements in the year. In the year to May 2015 AVC's paid by members amounted to £189k (£234k in 2014) and £649k was paid out by the scheme (£32k in 2014). At 31 May 2015 the total value of these AVC's was £1,185k (1,503k in 2014).

11. Disclosure of Related Party Transactions

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

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

To comply with this requirement the London Borough of Sutton's Strategic Director - Resources has issued a declaration form with guidance notes to members and senior officers. Set out below are details of the declarations made which are material to the pension fund accounts.

The Pension Fund had an average balance of £14.6 million of surplus cash deposited with the Council during 2014/15. The Council charged the Fund £326,200 for expenses incurred in administering the Fund. The Council is also the single largest employer of members of the pension fund and contributed £19.616 million to the fund (£17.937 million in 2013/14), note 2 refers.

Key Management Personnel

The pension fund and the Council share the same key management personnel and their remuneration and benefits, excluding pension contributions are shown below.

These figures include those senior staff who are individually disclosed. The costs are disclosed in full and cannot be apportioned on a reasonable basis.

2013/14	Remuneration Band	2014/15
Number of Employees	£	Number of Employees
1	up to 50,000	0
0	50,000 - 55,000	1
1	60,000 - 65,000	1
1	125,000 - 130,000	1

Senior Officers Emoluments where the salary is £100,000 or more per year

2013/14			Chief Officer	2014/15		
Salary, fees and allowances	Employers pension contributions	Total		Salary, fees and allowances	Employers pension contributions	Total
£	£	£		£	£	£
129,869	22,538	152,207	Strategic Director – Resources	128,473	0	128,473

12. Financial Instruments

a) Classification of Financial Instruments

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

	Designated at fair value through profit and loss		Loans and receivables		Financial liabilities at amortised cost	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Financial Assets						
Fixed Interest Securities	110,423	93,650				
Index Linked Securities	8,002	34,574				
Equities	265,415	308,293				
Pooled property investments	29,449	33,143				
Private Equity/Infrastructure	3,303	5,916				
Other*	7,743	8,909				
Investment Cash			3,283	1,453		
Other investment balances	5,812	4,768				
Investment Debtors			703	404		
	430,147	489,253	3,986	1,857	0	0
Cash in hand			13,508	15,277		
Debtors			808	965		
	430,147	489,253	18,300	18,099	0	0
Financial Liabilities						
Creditors					(571)	(565)
	0	0	0	0	(571)	(565)
	430,147	489,253	18,300	18,099	(571)	(565)

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

Other* includes absolute return, special opportunities, infrastructure, commodities and insurance linked securities and dividend futures.

b) Net Gains and Losses on Financial Instruments

	2013/14 £'000	2014/15 £'000
Financial Assets		
Fair value through profit and loss	15,598	56,087
Loans and receivables	(944)	(1,268)
Financial liabilities measured at amortised cost	0	0
Financial liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Total	14,654	54,819

Net gains and losses at fair value through profit and loss has been re-stated for 2013/14, as the change in the market value of investments has been adjusted to reflect management fees that have been deducted at source.

c) Fair Value of Financial Instruments and Liabilities

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

	Carrying Value		Fair Value	
	2013/14	2014/15	2013/14	2014/15
	£'000	£'000	£'000	£'000
Financial Assets				
Fair value through profit and loss	424,335	484,485	424,335	484,485
Loans and receivables	9,798	6,625	9,798	6,625
Total financial assets	434,133	491,110	434,133	491,110
Financial Liabilities				
Fair value through profit and loss	0		0	
Financial liabilities at amortised cost	0		0	
Total financial liabilities	0	0	0	0

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

	Carrying Value		Fair Value	
	2013/14	2014/15	2013/14	2014/15
	£'000	£'000	£'000	£'000
Non-investment Financial Assets				
Cash in hand	13,506	15,277	13,506	15,277
Debtors	808	965	808	965
Total non-investment financial assets	14,314	16,242	14,314	16,242
Non-investment Financial Liabilities				
Creditors	(571)	(565)	(571)	(565)
Total non-investment financial liabilities	(571)	(565)	(571)	(565)

d) Valuation of Financial Instruments Carried at Fair Value

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

Level 1

Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities

Level 2

Quoted prices are not available and valuation techniques use inputs that are based significantly on observable market data

Level 3

At least one input that could have a significant effect on valuation is not based on observable market data

	Quoted Market Price	Using Observable Inputs	With Significant Unobservab le Inputs	Total
Values at 31/03/15	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial Assets				
Equities	247,799	60,494		308,293
Securities	128,224			128,224
Property	1,228	20,329	11,586	33,143
Private Equity/Infrastructure			5,916	5,916
Loans to businesses			4,768	4,768
Other*	8,909			8,909
Financial assets at fair value through profit and loss	386,161	80,822	22,270	489,253

Other* includes absolute return, special opportunities, infrastructure, commodities and insurance linked securities and dividend futures.

Level 3 Investment Movement Summary 2014/15	Value at 31/03/2013 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/2014 £'000
Property	10,187	421	(152)	1,130	11,586
Private Equity/Infrastructure	3,304	3,256	(527)	(116)	5,916
Loans to businesses	5,812	252	(27)	(1,268)	4,768
	19,302			(254)	22,270

	Quoted Market Price	Using Observable Inputs	With Significant Unobservab le Inputs	Total
Values at 31/03/14	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial Assets				
Equities	208,715	56,700		265,415
Securities	118,425			118,425
Property	801	18,461	10,187	29,449
Private Equity/Infrastructure			3,304	3,304
Loans to businesses			5,812	5,812
Other*	7,743			7,743
Financial assets at fair value through profit and loss	335,684	75,161	19,302	430,147

Other* includes absolute return, special opportunities, infrastructure, commodities and insurance linked securities and dividend futures.

Level 3 Investment Movement Summary 2013/14	Value at 31/03/2013 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/2014 £'000
Property	4,930	4,883	(181)	555	10,187
Private Equity/Infrastructure	2,196	4,435	(3,349)	21	3,304
Loans to businesses	6,485	303	(33)	(944)	5,812
	13,611			(368)	19,302

13. Nature and Extent of Risks Arising from Financial Instruments

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

a) Market Risk

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

Price Risk

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

Potential price changes have been determined based on the observed historical volatility of asset class returns. More risky assets, such as equities display greater potential volatility than bonds. Potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. This has been applied to the year end asset mix for 2014/15 and 2013/14 as shown in the tables below.

Asset Type	Value as at 31/03/2015 £000	% Change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	1,453	0.6	1,461	1,443
Investment portfolio assets:				
UK bonds	42,392	6.7	45,232	39,552
Overseas bonds	52,287	9.5	57,254	47,320
UK equities	86,610	17.0	101,334	71,886
Overseas equities	221,683	20.1	266,241	177,125
Index linked gilts	33,545	4.8	35,155	31,935
Property	33,143	14.7	38,015	28,271
Private equity/infrastructure	5,916	15.9	6,857	4,975
Absolute return	8,909	12.0	9,978	7,840
Corporate bonds	4,768	9.5	5,221	4,315
Other - Debtors	404	0.0	404	404
Total assets available to pay benefits	491,110		567,152	415,066

Asset Type	Value as at 31/03/2014	% Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	3,283	0.6	3,303	3,263
Investment portfolio assets:				
UK bonds	55,252	6.9	59,064	51,440
Overseas bonds	55,756	9.6	61,109	50,403
UK equities	80,725	16.6	94,125	67,325
Overseas equities	184,690	19.4	220,520	148,860
Index linked gilts	7,416	5.0	7,787	7,045
Property	29,449	14.7	33,778	25,120
Private equity/infrastructure	3,303	28.4	4,241	2,365
Absolute return	7,744	11.8	8,658	6,830
Corporate bonds	5,812	0.0	5,812	5,812
Other - Debtors	703	0.0	703	703
Total assets available to pay benefits	434,133		499,100	369,166

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

Currency Risk

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

Following analysis of historical data in consultation with the fund investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 13% for 2014/15 and 2013/14. This is the one year expected standard deviation for an individual currency. This analysis assumes no diversification with other assets and in particular that interest rates remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows;

Currency Exposure - Asset Type	Value as at 31/03/2015	Change to net assets available to pay benefits	
	£000	13%	-13%
Equities	221,683	250,502	192,864
Fixed interest securities	51,258	57,922	44,594
Index linked securities	1,029	1,163	895
Property	11,586	13,092	10,080
Private Equity/Infrastructure	5,916	6,685	5,147
Total assets available to pay benefits	291,472	329,363	253,581

Currency Exposure - Asset Type	Value as at	Change to net assets	
	31/03/2014	available to pay benefits	
	£000	13%	-13%
Equities	184,690	208,700	160,680
Fixed interest securities	55,171	62,343	47,999
Index linked securities	585	661	509
Property	10,187	11,511	8,863
Private Equity/Infrastructure	3,304	3,734	2,874
Total assets available to pay benefits	253,937	286,949	220,925

Interest Rate Risk

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

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

	Value as at	Change in year if interest	
	31/03/2015	rates moved by 100bps	
	£000	+100bps	-100bps
Cash in hand	15,277	153	(153)

b) Credit Risk

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

The Council actively engages with its investment managers to monitor performance on a regular basis and to ensure that risk management and reduction is part of their investment approach. Investment risk is spread across fund managers and by investment category. The Fund also employs a custodian to ensure that all transactions are settled in an orderly fashion. Contractors in the scheme under Admission Agreements agree to the provision of a reviewable bond to save the risk of financial loss to the fund.

At 31 March 2015 the Council held £15.277m cash on behalf of the Pension Fund through its treasury management arrangements. £12.410m was held in a dedicated Pension Fund bank account and the remaining £2.860m was invested with institutions on the Council's approved counterparty list, which is carefully monitored to manage exposure to credit risk.

c) Liquidity Risk

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

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

14. Audit Costs

An audit fee of £21,000 is payable to Grant Thornton UK LLP for external audit services used by the Pension Fund for the financial year 2014/15. This fee is unchanged from 2013/14.

15. Pension Fund Annual Report

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

7. AUDITORS CERTIFICATE

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF SUTTON ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT

We have examined the pension fund financial statements of London Borough of Sutton for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the Fund Account, the Net Assets Statement and the related notes.

This statement is made solely to the Members of London Borough of Sutton, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the Members of the Authority those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director - Resources and Auditor

As explained more fully in the Statement of Responsibilities set out in the administering Authority's annual Statement of Accounts, the Strategic Director - Resources is responsible for the preparation of the Statement of Accounts which includes the pension fund financial statements, in accordance with applicable law and proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of London Borough of Sutton, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the sections on: Investment Performance, Statement of the Actuary and the Appendices.

We conducted our work in accordance with guidance issued by the Audit Commission. Our reports on the administering authority's annual Statement of Accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of London Borough of Sutton for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Grant Thornton UK LLP
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

29 September 2015

8. PENSION ADMINISTRATION STRATEGY

Sutton Pension Services (SPS)

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

The Council's in-house team undertake the administration of the Local Government Pension Scheme (LGPS) Regulations and associated legislation, for approximately 11,600 members, covering non-teaching staff employed by London Borough of Sutton, Sutton Housing Partnership (SHP), Carshalton College, Academy Schools, CAB, Bandon Hill Cemetery Joint Committee, other TUPE transferee contractors admitted to the scheme and elected Members of the Borough (special provisions). The service is also responsible for approximately 220 compensation payments for former GLC Housing staff and borough liabilities for teachers retired early.

This includes:

- The provision of retirement benefits, life cover and dependants benefits for current and former staff or their dependants.
- Maintenance of member pension records via interface from the Borough payroll or using agreed manual processes for the 49 other (off payroll) employers; 39 of the borough schools, Carshalton College, Sutton Housing Partnership, CAB and a number of contractors providing services to the borough.
- Ensuring changes in the Regulations affecting benefit (or potential benefit) entitlements are correctly applied and Scheme members are kept informed of their options.
- Arranging illustrations for transfer of members' previous pension benefits into the Borough scheme and where appropriate affecting the transfer.
- Illustrations of the benefits of paying additional contributions – to purchase additional LGPS pension or for payment into the AVC arrangement with Clerical Medical to provide extra money purchase benefits.
- Providing details of preserved entitlements for early leavers and transfer illustrations and payment as necessary.
- Redundancy and early retirement benefit forecasting (for employers and members) and where necessary, payment of entitlements.
- Calculation and recovery of employer costs associated with capital impact on pension fund of early payment of benefits.
- Operating the special provisions of the scheme relating to elected Members who have opted to join the LGPS.
- Provision of all necessary data to the Council's actuary for the annual FRS17 exercises (March, July for Carshalton College & August for Academy schools) and triennial valuations of the pension – making statutory returns to government bodies as appropriate.
- Maintaining the Civica Universal Pensions IT system with updated versions and revisions to tables as advised by the Borough actuary or Government Actuary Dept (GAD).
- Advice and assistance on the pension issues where members' employment is being transferred to a contractor under TUPE, where a school converts to academy status or the future service is being provided in partnership with another borough or other means.
- Arranging terms for Admission Agreement to the LGPS for new employer using the scheme to fulfil their pension provision obligation.
- Undertaking required pension savings growth calculations and where necessary, notifications under the HMRC Annual Allowance provisions.

LGPS 2014

Ahead of the introduction of the revised Career Average Revalued Earnings (CARE) scheme changes, regular communications kept employees, informed particularly about the change to employee contribution rates (many increasing) effective from 1 April 2014.

The change of allocation to an employee contribution band being based on actual pensionable pay (previously based on notional full time annual rate adjusted by term time weeks) was implemented by the Borough payroll provider and other off payroll employers in April 2014. It was also agreed that employee contributions from that date would be reassessed each month based on the actual (contractual) pay received in that period.

With the training received from the Local Government Association (LGA) the Pensions Team were able to assess new CARE entitlements. They were also able to assist staff regarding how they may be affected by the scheme changes and their protections in the final salary scheme for pre April 2014 benefits.

The Staff Pensions web page was updated as required and includes a link to the national "LGPS2014" website www.lgps2014.org.

Valuation as at 31 March 2013

From 1 April 2014 the first step of the revised employer contribution rates as set in the Valuation of the fund as at 31 March 2013, were implemented in the various employer payrolls. Further changes will be applied in the following two years in line with the Valuation Rates and Adjustment Certificate.

Redundancy & Early Retirement

There was continuing demand for costing of redundancies for employing Directorates, many related to Smarter Services Sutton savings proposals and more recent commissioning reviews under the Smarter Council programme. Followed in many cases with the processing of individual entitlements on actual termination.

Academy Schools

There were no new conversions to academy status but initial actuarial assessments were undertaken for a number of schools planning to convert in 2015/16.

FRS17 assessments were arranged for the seventeen academy schools as at 31 August 2014 and reports provided for inclusion in the school accounts.

New Transferee Admission Agreements

Two new admission agreements were set up to provide continuing access to the LGPS for staff TUPE transferred to contractors in 2014/15. Provisional assessments were also arranged for a number of other services being transferred in 2015/16.

Replacement Pensions Administration IT System & Future Shared Service with RBK

In April 2014 the implementation project for the replacement Civica Universal Pensions Management (UPM) shared Kingston & Sutton (K&S) Pensions Administration IT system started with a go live date in December 2014. Some very positive collaboration between the Pension Teams on common processes and outputs was undertaken for inclusion in the system implementation.

Data cleansing processes were completed ahead of system testing resulting in the system going live to target in December 2014. Further transitional work has been undertaken towards the combined K&S database being implemented in June 2015.

In a separate strand of this project the in-house Flexible Administration and Business Support service commenced the scanning of approx 11,000 (active, deferred & pensioners) members

paper files. Starting with the deferred benefits files, which have been saved directly into the members' system record using an index sheet produced from a UPM report.

It is expected that this will be followed by the introduction of both (LGPS) member and employer self serve later in 2015.

Work has continued since early 2015 on the second phase of the project towards bringing together Kingston & Sutton Pensions Administration Teams, with a target completion date of April 2016.

Key Activity in 2014/15

- Procurement and implementation of a new Pension Administration System.
- The introduction of the revised LGPS 2014 Career Average Revalued Earnings (CARE) provisions and protections.
- Completed year end processing 2013/14 using revised procedures dealing with the new banded employee contribution rates. Ensured the correct pensionable pay rates were derived from the contributions paid both on the borough payroll and on the 49 other scheme employers who use alternative payroll providers.
- The first phase of the revised employer contribution rates resulting from the Triennial valuation of the fund as at 31 March 2013 were applied from April 2014. The borough is committed to a cash payment to fund the deficit recovery contribution arising from reducing active membership, two of the funds other scheduled bodies and one Admitted Body made single (annual) cash payments towards their deficit recovery funding.
- Processed a large number of early retirement / redundancy estimates to assist employing Groups in formulating costed proposals for the 2015/16 budget consultation and to inform decisions on future service delivery options, including potential shared services.
- Pensions into payment in 2014/15; age retirements (active members & preserved benefit) 147, ill health 5 & redundancy / efficiency 25.
- Increased volumes – fund membership (Active / Preserved & Retired) growth around 3.5% in the year to March 2015. Previous years; 4.5% in 2013/14, 2% in 2012/13, 2.5% in 2011/12 & 5% in the years to March 2010. Much of the increase has been due to the Automatic Enrollment which applied from 1 April 2013.
- Increasing caseload volumes – ratio of members to FTE Pension staff; 2,900 in 2014/15 (11,600 / 4), 2,775 in 2013/14, 2,641 in 2012/13 & 2,588 in 2011/12.
- Increased numbers of employers using alternative payroll providers (49 in 2014/15) where manual monthly returns / pension record adjustments and special annual contribution postings are processed, make up around 29% of the active membership.

LONDON BOROUGH OF SUTTON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Section	Description	Page
1	Background	41-42
2	Fund Liabilities and Solvency	42-43
3	Investment Responsibilities	43-44
4	Investment Strategy	45-46
5	Investment Approach	46-47
6	Investment Arrangements	47-49
7	Socially Responsible Investment	50-51
8	Corporate Governance and Proxy Voting Policy	51-54
Annex		
1	Strategic Benchmark and Asset Return Assumptions	55
2	Compliance with Myners	56-57

Section 1 - Background

Introduction

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare, maintain and publish a written statement of the principles governing their decisions about investments. The purpose of this document is to meet these requirements.

The Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees, mainly local government staff. During 2014/15, the LGPS scheme operated as a Career Average Re-valued Earnings (CARE) scheme, which is based on actual pensionable pay, with banded employee contribution rates and employer rates variable depending on the funding level assessed every three years by the Fund actuary. Benefits are defined in law and inflation-protected in line with increases in the Consumer Prices Index. The scheme is operated by designated administering authorities each maintaining a pension fund and investing monies not needed immediately.

From 1st April 2014 the new LGPS came into effect. The main provisions of the new scheme are as follows:

- A Career Average Re-valued Earnings (CARE) Scheme using CPI as the revaluation factor;
- The accrual rate will change to 1/49th as opposed to 1/60th under the previous scheme;
- There will be no normal scheme pension age, instead each member's Normal Pension Age (NPA) will be their state pension age – the previous scheme had a NPA of 65;
- Average member contributions to the scheme will be 6.5% with the rate determined on actual pay instead of notional full time pay in the previous scheme;
- Members have the option to pay 50% contributions for 50% of the pension whilst retaining the full value of other benefits; and
- For current scheme members, benefits for service prior to 1st April 2014 are protected. Protected past service continues to be based on final salary and current NPA.

The Sutton Pension Fund

Sutton Council is a designated administering authority and is responsible for the administration of the scheme for London Borough of Sutton employees (and certain admitted bodies), excluding teachers who have their own specific scheme.

Pension Committee

In accordance with CIPFA best practice the Pension Committee has delegated responsibility for the management of funds under its supervision and all other operational matters in respect of the administration of the scheme.

Pension Funds are not separate legal entities from administering authorities and are therefore not covered by trust law. Nevertheless the role of the administering authority is very

similar to that of a trustee and members of the Pension Committee therefore act in a quasi-trustee role.

With the introduction of the Public Service Pensions Act 2013, the DCLG are currently consulting on the implementation of the requirement for new Pension Boards to be set up. These boards will either replace or be in addition to existing Pension Committees and will have an additional scrutiny role.

Pension Board

During 2014/15 Central Government issued final regulations on governance changes for the local government pension scheme. The main focus of the regulations was the introduction of Local Pension Boards.

The Sutton Local Pension Board was officially established by Full Council at the meeting held on 2 March 2015. Board members have all now been recruited; there are three employer board representatives, three employee board representatives and one independent chair of the Board. The first meeting will be held in July 2015.

The responsibility of the Pension Board will be to ensure that the authority complies with pension scheme regulations and other legislation relating to the governance and administration of the scheme.

Management

The Pension Committee has delegated the management of the Fund's active investments to professional investment managers, whose activities are specified in detailed investment management agreements and monitored quarterly. The Fund's managers are regulated by the Financial Conduct Authority (FCA).

Section 2 – Fund Liabilities and solvency

Scheme Benefits

The LGPS is a defined benefit scheme that previously provided benefits related to final salary for members. From 1st April 2014 this was based on career average re-valued earnings as opposed to final salary. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of the benefits are set out in the LGPS regulations.

Financing benefits

Since 1st April 2008, all active members are required to make pension contributions of between 5.5% and 7.5% of pensionable pay depending on which pay band they fell into. From 1st April 2014 these rates changed with the new range between 5.5% and 12.5%. The Council is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund's actuary. The Council thus has a direct financial interest in the investment return achieved on the Fund's assets.

The solvency position of the Fund

The Council's former actuaries, Hymans Robertson, undertook a full triennial valuation of the Pension Fund as at 31 March 2013.

The results of the valuation of the Fund as at 31 March 2013 showed that fund liabilities totalled £645m and assets £430m. The Fund therefore had a deficit of £215m and an overall funding level of 67%. Investment returns were higher than the assumptions used at the last valuation however the deficit increased due to the valuation of liabilities due to a decrease in real gilt yields.

In assessing the Council's contribution rate, the actuary looked at stabilisation as a way of minimising the volatility on the impact of employer contribution rates. On the basis of this stabilisation approach, the Council agreed that the contribution rate should be increased by 1% per annum in each of the next three years. This results in monetary contributions of £3.3m in 14/15, £4.1m in 15/16 and £5m in 16/17. Other employers including Sutton Housing Partnership, Carshalton College and Academy Schools will also see contributions increase in response to the increase in the deficit. These contributions are intended to help to eliminate the deficit and achieve a 100% funding level over a 22 year period. This is considered in more detail in the Council's Funding Strategy Statement.

Since the full actuarial valuations are carried out every three years, the next one will be carried out over the summer 2016 and the results will be reported to the Pensions Committee in November 2016. This valuation will assess the fund value as at 31st March 2016 and will determine contribution rates from 1st April 2017.

The Maturity of the Fund

The maturity of the Fund gives an indication of the timescales over which the liabilities of the Fund will need to be met and against which the investment strategy should be framed. The maturity of the Fund has slightly increased since the previous valuation. 61% of the current liabilities of the Fund related to pensioners and deferred pensioners rather than active members. This compares to 57% in 2010 and 59% in the 2007 valuation. However net cash flows into the Fund continue to be positive however this position is being carefully monitored.

Section 3 - Investment Responsibilities

The Pension Committee is responsible for:

- Determining overall investment strategy and strategic asset allocation, with regard to the suitability and diversification of investments.
- Monitoring compliance with the Statement of Investment Principles and Funding Strategy Statement and reviewing their contents.
- Appointing investment managers, the actuary and any external advisers considered necessary.

- Reviewing investment manager performance against established benchmarks on a regular basis, and being satisfied as to manager expertise and the quality of their internal systems and controls.
- Reviewing policy on socially responsible investment and corporate governance.
- Ensuring compliance with statutory requirements and the investment principles set out in this document.
- Other Pension Fund matters as necessary.

The Pension Committee is supported in this role by the Strategic Director – Resources, other senior finance staff of the Council and committee staff. The committee also receives advice as necessary from the investment managers, the fund actuary and the external investment adviser.

The Investment managers are responsible for:

- The investment of pension fund assets in compliance with legislation and the detailed Investment Management Agreements.
- Tactical asset allocation around the strategic benchmark set by the Pension Committee and stock selection within asset classes.
- Implementation of the socially responsible investment and corporate governance policies.
- Preparation of quarterly reporting including a review of investment performance.
- Attending meetings of the Pension Committee and with Council officers as required.

The Actuary is responsible for:

- Undertaking the statutory triennial valuation of the Fund's assets and liabilities.
- Undertaking interim annual valuations of the Funds assets and liabilities.
- Providing advice on the maturity of the Fund and funding level so that the Committee can balance the funding and investment objectives.
- Providing other advice on actuarial and pension fund issues as necessary.

The Investment adviser is responsible for:

- Review of asset allocation, investment strategy and investment management structure.
- Advise on investment markets and the outlook for different asset classes including alternatives.
- Advise on fund manager selection.
- Monitor investment manager activity, performance, standing and suitability and reporting to the Pensions Committee on specific areas of interest or concern and recommending changes where necessary.
- Advise on Corporate Governance and Socially Responsible Investment policies.
- Provide training to members and officers as required.

Section 4 – Investment Strategy

Strategy Review

Following the 2010 triennial valuation of the Pension Fund, the Council commissioned a review of investment strategy from its actuary, including an asset / liability study. This review took into account the funding position and maturity profile of the Sutton Fund, the risk and return characteristics of different asset classes and the potential impact of different investment outcomes on the fund.

Findings

The broad conclusions of the review were that:

- The extent of the allocation to equities will influence returns; the impact will depend on economic conditions. While a broad target allocation to equities is desired, some flexibility to vary the allocation could result in improved long term returns;
- Selecting the correct mix of managers is important. It is important to consider a diversified mix of approaches within the equities allocation;
- Allocating assets to bonds is a good way of reducing overall risk within the Fund;
- Flexibility over the allocation of bonds can help to add to returns;
- Alternative asset classes can improve the risk and return profile of the Fund;
- Overall the property allocation has had a positive impact on relative returns and that this should remain an important part of the investment strategy as a useful diversification from equities.

Outcome

From these conclusions Hymans Robertson made a number of recommendations to change the investment strategy. These recommendations are detailed below and have largely been actioned:

Equities

- Change the Fund's equity allocation from a 50/50 UK/overseas split to a 30/70 split.
- Move the Newton mandate to a market cap based benchmark.
- Revise the L&G benchmark to maintain a balanced exposure across the equity regions.
- Introduce a degree of currency hedging against the Fund's overseas equity investments.
- Retain L&G as a core passive exposure to equities alongside Newton, but appoint two new equity managers with a more active approach alongside L&G and Newton, with a global market cap based benchmark. Two new equity fund managers have been appointed.

Other Growth Assets

1. Introduce a 15% allocation to absolute return strategies – two new fund managers have been appointed to manage absolute returns.
2. Introduce an allocation to infrastructure of up to 5% - a new fund manager has been appointed to manage infrastructure.
3. Consider investment opportunities on an ongoing basis without committing to a specific allocation.
4. A target over time of reducing quoted equity and bond exposures by 15%-20% in favour of the above new investments.

Bonds

1. Maintain the current strategy, but investigate possible amendments to the existing mandate that might protect or improve bond returns – a new bond manager has been appointed.

The resultant asset allocation benchmark broadly provides for 55% investment in equities, 15% in bonds, 10% in property, 15% in absolute return and 5% in infrastructure.

This new investment strategy has been implemented over the past three to four years. All major changes to the fund have now been completed.

Section 5 – Investment Approach

Investment Goal

Investment returns for the Pension Fund will be maximised whilst limiting risk and volatility by maintaining a prudent and balanced investment exposure. This will enable the fund to meet its pension obligations at minimum cost to the council tax payer.

Investment Objectives

1. To manage investment arrangements in accordance with the Council's Statement of Investment Principles.
2. To limit risk and volatility by:
 - a. Working to an asset allocation benchmark for investments specific to Sutton's circumstances.
 - b. Splitting the fund's assets between two active equity fund managers, one passive equity manager and specialist managers for absolute return, property, infrastructure, bonds and a loan financing fund.
 - c. Requiring managers to adhere to investment regulations and control risk through a prudent investment process.
3. To maximise investment returns by:
 - a. Mandating fund managers to manage portfolios in a defined manner with full discretion over investment selection consistent with the asset allocation benchmark.
 - b. Using passive index tracking as a way of introducing flexibility whilst also achieving a high rate of success of tracking the benchmark

- c. Setting performance targets and a performance based fee structure where relevant.
- d. Monitoring performance quarterly.

Strategic Benchmarks

The strategic benchmarks for investment managers were set following an asset liability review and are reviewed regularly. The mandates given to the investment managers require that they maintain a balance of percentage allocations to specified asset classes and geographical markets and are described in Annex 1.

Investment Fees

Fees for individual investment managers vary. Generally the fees for all managers are either a set or tiered fee based on the value of assets under management. Fees for the infrastructure manager vary according to the type of investment undertaken. With the exception of Newton, Baillie Gifford and L&G, fees for all managers are deducted directly from the net asset value of investments. Newton, Baillie Gifford and L&G invoice their fees on a quarterly basis.

Review

The investment strategy is reviewed on an annual basis.

Reporting

The performance of individual investment managers is reported at each quarterly meeting of the Committee. Each year investment managers attend one of the Committee meetings and update members on investment decisions and actions.

Section 6 – Investments Arrangements**Powers and duties**

The powers and duties of the Council to invest Fund monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI No. 1831). The Council is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investment and the advice of persons properly qualified on investment matters.

Types of investments

In broad terms, investment may be made in accordance with the regulations in equities, fixed interest and other bonds, and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

The Regulations also specify certain limitations on investments. Principally, these place a limit of 10% of the total value of the fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities.

Investment management

The Council has appointed investment managers under the terms of the Regulations to manage all of the Fund's investments. The investment managers are required to select appropriate types of investment, to determine a suitable balance between different kinds of investments (within parameters determined by the Council) relative to the strategic benchmark, and to maintain a diversified portfolio.

The eleven investment managers are responsible for portfolios as follows:

- *Global Equity portfolios - Newton Investment Management Ltd, Harding Loevner Funds Plc, Schroder Investment Management and Legal and General*
Newton, Harding Loevner and Schroder's have discretion to determine individual stock selection and tactical asset allocation within specified control ranges. A performance objective of 2% per annum (gross of fees) above the relevant benchmark over a three year rolling period is applied to Newton and similarly for Harding Loevner and Schroder's at 3% per annum. Legal & General is a passive investment manager and is required to match the benchmark.
- *Pooled Multi Asset portfolios – Baillie Gifford & Co and Pyrford International*
These investment managers invest in a wide variety of different asset classes. A performance objective of 3% per annum (gross of fees) above the relevant benchmark over a three year rolling period is in place for both managers.
- *Property only portfolio - BlackRock*
The investment manager holds property in pooled funds. Their performance objective is to outperform the relevant benchmark.
- *Bonds only portfolio – M&G*
The investment manager holds bonds in pooled funds. A performance objective of 0.75% (gross of fees) above the relevant benchmark over a three year rolling period is applied.
- *Infrastructure only portfolio – Partners Group (UK) Ltd*
The investment manager invests in global infrastructure directly and through secondary and primary investments in infrastructure partnerships. The Fund targets an absolute return of 8% per annum.
- *Financing Fund – M&G UK Companies Financing Fund*
The financing fund provides medium term debt to UK companies from the FTSE 350. The fund targets a return of 10% per annum net of fees. A management fee of 0.5% is payable on drawn amounts.
- *Real Estate Fund of Funds – AVIVA Investors*
This fund is a diversified UK property fund portfolio with the objective of outperforming the benchmark by maximising total return through capital growth and income return.

Limitations on the discretion of the investment managers are detailed in the investment management agreements.

Custody

The Council appointed Northern Trust to act as global custodian for the Fund for all classes of assets from September 2005.

Investment risk

The risk management arrangements align with best practice derived from the principles of investment practice issued by the Government in response to the review by Paul Myners. The Pension Fund risk register summarises the key risks, including financial / investment risks, and the mitigations. The Investment Strategy and the Investment Arrangements outlined in the Statement of Investment Principles reflect the Pension Fund's liability profile and the need to manage investment risk. A strategic asset allocation benchmark is used to provide effective risk control and a prudent balance between risk and return. Further risk control is obtained by employing specialist fund managers and splitting the portfolio between different fund managers. Regular monitoring of performance and the limits placed on investment manager discretion further contribute to the effective management of investment risk.

Compliance

The Pension Committee and the Strategic Director – Resources are responsible for monitoring the qualitative performance of the investment managers to ensure that they

remain suitable for the Fund. These qualitative aspects include ownership, personnel, investment administration, and compliance with this statement.

LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by the Department for Communities and Local Government (the government department with responsibility for oversight of the LGPS) and replace the ten Myners principles published in 2001. The extent of compliance with the six principles is summarised in Annex 2.

Stock Lending

In agreement with Northern Trust, Sutton does not engage in stock lending.

Section 7 - Socially Responsible Investment

Policy Statement

The Council believes that non-financial factors should not drive the investment process at the cost of financial return on the Council's Pension Fund. However, fund managers are required, when making investments, to consider the financial impact of good and poor socially responsible activities of companies. If their assessment of companies for investment indicates that a corporate governance, social, environmental or ethical factor could have an impact on a company's financial performance (positively or negatively) the fund managers must take account of it.

The Council believes that in addition to strong financial and investment criteria and sound management, companies that exhibit one or more of the following positive criteria are likely to be

Among

the more successful companies in the future. To this extent, fund managers are asked to consider the following positive criteria when making investment decisions for the Fund:

Conservation of resources	Equal opportunities
Corporate giving	Good relations with customers & suppliers
Community involvement	Positive products of long term benefit to the community
Corporate Disclosure	Women's issues
Education and training	Environmental initiatives

The Council will continue to develop and clarify its policy of direct communication with companies where it is believed their activities are not in accordance with criteria required for producing stable long-term financial results. To this effect, the Council will work in partnership with its fund managers and advisers to develop practical and sustainable criteria and to identify the means to demonstrate measurable results.

The Council will ask its managers to vote in accordance with agreed policy which is based on the principles of best practice of corporate governance as laid out in the Combined Code. As such, voting will be in favour of company management except in cases judged by fund managers to be in breach of the code or when it is felt that companies are not acting in the best interests of shareholders. In these cases it is expected that the Council's fund managers will either abstain or vote against resolutions. A more detailed policy is set out in Section 8 below.

Review and Disclosure

This Statement has been agreed in consultation with the Council's Pension Fund Committee, which represents the Council as Trustees of the Pension Fund and has been prepared with advice from CAPITA Treasury Services Limited, independent advisers in Treasury, Risk Management and Specialist Funding.

The Council will review the policies in this Statement at least annually or more frequently on any material policy change. The Council will make available, on request, further details of its voting criteria and other documents described in this Statement.

Section 8 - Corporate Governance and Proxy Voting Policy**Introduction**

This document is designed to set out the policy that directs the Councils proxy voting; to deal with the implementation of the policy; and to outline the benefits which accrue to the Fund by the policy's application.

Principle

The right of a shareholder to vote at company meetings is a fundamental link in the chain that binds the owners of the company to those who make the investment decision. The exercise of that vote in an informed way lies at the heart of the regulation and promotion of good corporate governance.

To this end, fund managers will be asked to vote shares in UK companies in accordance with this policy. The Council retains a commitment to pragmatic and flexible voting and would instruct fund managers to contact it on any matters of corporate governance, which might be considered to be contentious.

Policy

The Councils policy is based on the principles of best practice of corporate governance as laid out in the Combined Code. As such, it tends to vote in favour of company management, except in cases judged by fund managers to be in breach of the code or when fund managers feel that companies are not acting in the best interests of shareholders. In these cases the Council will either abstain or vote against resolutions.

In order to avoid the simple box ticking which robs the proxy vote of much of its strength, the Council asks fund managers to assess each resolution on a case by case basis and implement the policy in a flexible manner. The Council considers this to be especially important in the arena of smaller company voting where standards of proxy voting may be less developed than in larger UK companies. This practical and pragmatic approach allows the Council to use their voting power to maximum effect.

Directors

Directors are the stewards of shareholders' capital and should be properly accountable for their actions. Sufficient information should be disclosed in the report and accounts to allow shareholders to judge the success of Boards in leading and controlling their company.

The Council will normally vote against:

- Combined roles of chairman and chief executive where not publicly justified; and
- The election of executive directors with positions on either remuneration or audit committees.

The Council is supportive of initiatives to ensure that all non-executive and executive directors stand for re-election at least once every three years.

Appointment of Non Executive Directors

The election of a powerful constituency of non-executive directors as a counter-balance to executive management is one of the most effective ways of ensuring that the wider interests of shareholders are heard in the boardroom.

The Council will normally vote in favour of:

- A sufficiency of non executive directors on a board (the code recommends one third as a minimum); and
- A majority within the non-executives of those the fund manager considers being independent of the company.

Executive Remuneration

One of the most contentious and closely examined areas of corporate governance is that of executive remuneration, comprising directors' service contracts and long-term incentive plans.

Whilst the Council does not consider it appropriate to comment on the quantum of a director's pay, it believes it is important to ensure that remuneration is linked to results.

Service contracts

The length of directors' service contracts forms a central part of the Combined Code. The code recommends that existing contracts or notice periods be reduced to terms of 12 months rolling or less, and that new contracts should either be established on the same terms or fixed for an initial period and subsequently reduced.

The basic principle of the code is to contain the length of directors' service contracts whilst tying directors into the long-term future of the company by offering incentives for good performance. From the shareholders' point of view, 'reward for results' clearly remunerates directors who enhance the value of their company. At the opposite end of the scale, the reduction in the rolling elements of the contract ensures that shareholders in a company

whose management is underperforming do not have to suffer the double penalty to having to overpay for the management's removal.

The Council will normally vote in favour of:

- Rolling contracts of one year's term;
- Two year rolling contracts were justified by the remuneration committee; and
- Fixed contracts up to two years in length with subsequent reductions to 12 month rolling periods.

The Council will normally vote against:

- Contracts whose terms lie outside any of the above.

Long- term incentive plans

The Council realises that the corollary of shorter service contracts is that those directors be rewarded for exceptional company performance via long-term incentive plans.

The Council will support long-term incentive plans which;

- Directly align the interests of directors with those of shareholders;
- Establish challenging performance criteria for the plans to invest - performance at or below the median should not be rewarded;
- Measure performance by total shareholder return in relation to the market for a range of comparable companies rather than growth in earnings per share;
- Are long-term in nature (the code recommends a minimum of three years); and
- Encourage long-term ownership of the shares once awarded.

The Council would ask fund managers to enter into dialogue with companies to try to amend the terms of an incentive plan rather than simply to cast a vote against.

Political Donations

The Council normally considers any political donations to be a misuse of shareholders' funds and will vote against resolutions proposing them.

Implementation

The Council intends its voting policy to be implemented across the FTSE All Share Index. The Councils research on voting matters is supplemented by Manifest, and it asks fund managers to contact the company secretary for further information on resolutions deemed to be contentious, if necessary.

The process of casting votes is delegated to fund managers.

The Council asks fund managers to keep a record of all votes cast, and that the content of the resolutions and directions of the votes cast are reported to the Council on a quarterly basis including the reasons for any abstentions or votes against resolutions.

The exercise of a proxy vote is a somewhat blunt tool with which to improve standards of corporate governance, but it is not the only way in which the Council can influence corporate behaviour. Fund managers meet, on a one to one basis; the senior management of many UK PLC's each year. Although the primary purpose of such meetings is to give management the opportunity to discuss matters of strategic importance, the highly interactive nature of these meetings means that this is a natural forum in which to raise matters such as corporate governance.

Benefits

The Council believes that the use of these meetings in conjunction with the disciplined and consistent voting policy detailed above contributes to higher standards of corporate governance in the UK. Linking the remuneration of Directors to the fortunes of their company whilst reducing the rolling elements of contracts is a clear way of aligning the interest of

Directors with those of shareholders. The establishment of challenging performance criteria, which must be met for incentive plans to invest, reinforces this objective. Importantly, these performance targets can often give an insight into companies' aims and ambitions which can otherwise remain obscure, and it is in this way that the right to vote on resolutions becomes supplementary to the investment process; not just a duty but a benefit.

2014/15 STRATEGIC ASSET ALLOCATION

	Benchmark %	Index
UK Equities	13.0	FTSE All Share Index
Global Equities	42.0	MSCI AC World NDR
Corporate Bonds	12.0	3 Month LIBOR + 3%
UK Index Linked Bonds	8.0	FTSE A British Government Over 5 Years Index-Linked
Pooled Multi Asset	15.0	3 Month LIBOR + 3%
Property	10.0	IPD All Properties Index
Total	100%	

For performance purposes, the benchmark is to be rebalanced on a quarterly basis. The fund managers are required to adhere to asset control ranges of + / - 10.0% for each asset class including cash (subject to the constraint of a minimum exposure of 0%).

COMPLIANCE WITH MYNERS SIX PRINCIPLES OF INVESTMENT PRACTICE

Principle 1 – Effective Decision-making

Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation and that those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Compliant - The Council has delegated the management and administration of the pension fund to the Pension Committee which meets quarterly. Members receive training to enable them to fulfil their roles and responsibilities. The responsibilities of the Committee are described in Section 3 above. The Committee obtain and consider advice from the Strategic Director – Resources, and as necessary from the Fund's appointed actuary and advisors. The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

A Governance Compliance Statement is maintained showing the extent to which there is compliance with nine governance principles set out in CLG's *Local Government Pension Scheme Governance Compliance Statements Statutory Guidance*.

Principle 2 – Clear objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Compliant – the Councils overall investment goal and aligned investment objectives are set out in the Investment Strategy (part of the Statement of Investment Principles) and reflected in the fund managers' contracts. The Fund's performance is measured against the investment objective on a quarterly basis. An asset liability review was carried out in 2002 and this resulted in the Council adopting a scheme specific benchmark that is related to the Fund's liabilities. The benchmark is reviewed after each triennial valuation.

Principle 3 – Risk & Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Compliant - The Pension Committee has agreed in conjunction with its advisors an investment strategy that takes account of the liability profile of the Pension Fund, including longevity risk, and includes a strategic asset allocation benchmark that provides a prudent balance between risk and return, which enable the Council to meet its obligations at minimum cost to the council tax payer and participating employers.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Compliant – the Council employs an investment performance measurement service which monitors managers performance quarterly, with fund managers attending Committee meetings. The Pension Fund Committee’s assessment of its own effectiveness as a decision-making body is inherent in how the Fund has performed against the investment objectives it set, allowing for market conditions. The performance figures are included in the Annual Report which is published.

Principle 5 – Responsible Ownership

Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders’ Committee Statement of Principles on the responsibilities of shareholders and agents. They should include a statement of their policy on responsible ownership in the statement of investment principles and report periodically to scheme members on the discharge of such responsibilities.

Partially compliant - The Statement of Investment Principles includes a policy on responsible investment which is reviewed at least annually, or more frequently for any material policy changes, and these are reported as appropriate to the Pension Committee. The policy encompasses environmental, governance and social issues.

Principle 6 – Transparency and Reporting

Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives and provide regular communication to scheme members in the form they consider most appropriate.

Compliant - The Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and the Communications Strategy are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council’s web site and internal intranet. Performance figures are also included.

LONDON BOROUGH OF SUTTON PENSION FUND

FUNDING STRATEGY STATEMENT

Section	Description	Page
1	Introduction	59-61
2	Basic Funding issues	61-64
3	Calculating contributions for individual employers	64-75
4	Funding strategy and links to investment strategy	75-77

1 INTRODUCTION

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Sutton Pension Fund (“the Fund”), which is administered by London Borough of Sutton, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2014.

1.2 What is the London Borough of Sutton Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Sutton Pension Fund, in effect the LGPS for the London Borough of Sutton area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- Uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers’ contributions; and
- Prudence in the funding basis.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years);
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a council tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; 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.

1.6 How do I find my way around this document?

Section 2 has a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

Section 3 outlines how the Fund calculates the contributions payable by different employers in different situations.

Section 4 shows how the funding strategy is linked with the Fund's investment strategy.

If you have any other queries please e-mail pensions@sutton.gov.uk.

2 Basic Funding issues

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances

which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - Councils, and other specified employers such as Academies and Further Education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to Academy status, and for other forms of school (such as Free Schools) to be established under the Academies legislation. All such Academies, as employers of non-teaching staff, become separate new employers in the Fund. As Academies are defined in the LGPS Regulations as "Scheduled

Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the Academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of Academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer’s ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefiting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation");
- the use of extended deficit recovery periods;
- the phasing in of contribution rises or reductions;
- the pooling of contributions amongst employers with similar characteristics;

- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- Lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

APPENDIX 2

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Council	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund
Future service rate	Projected Unit Credit approach				Attained Age approach	Projected Unit Credit approach
Stabilised rate?	Yes - see Note (b)	No	Yes - see Note (b)	No	No	No
Maximum deficit recovery period – Note (c)	22 years	15 years	22 years	22 years – subject to security / covenant check	22 years– subject to security / covenant check	Outstanding contract term
Deficit recovery payments – Note (d)	% of payroll plus Monetary amount	% of payroll plus Monetary amount	% of payroll	% of payroll plus Monetary amount	% of payroll plus Monetary amount	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions over deficit recovery period	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	Covered by stabilisation arrangement	3 years	3 years	3 years
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

APPENDIX 2

NOTE (A) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding, the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

NOTE (B) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;

APPENDIX 2

- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council	Academy
Max cont increase	+1% of pay	Council Rate +1%
Max cont decrease	-1% of pay	Council Rate -1%

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

NOTE (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 22 years.

NOTE (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries or percentage of salaries plus a monetary amount. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or

APPENDIX 2

- the employer has closed the Fund to new entrants.

NOTE (E) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

NOTE (F) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

NOTE (G) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The new Academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the Academy is part of a Multi Academy Trust (MAT) in which case the Academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new Academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new Academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of Academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the Academy's active Fund membership on the day prior to conversion;
- d) The new Academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

APPENDIX 2

- e) As an alternative to (d), the Academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (b) and (c) above. Ultimately, all Academies remain responsible for their own allocated deficit.

The Fund's policies on Academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (d) and (e) above will be reconsidered at each valuation.

NOTE (H) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

NOTE (I) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so

APPENDIX 2

that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- Redundancy and early retirement decisions.

NOTE (J) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment out-performance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

APPENDIX 2

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

APPENDIX 2

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- Whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and

APPENDIX 2

consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contributions and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up

APPENDIX 2

and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due.

These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;

APPENDIX 2

- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority reports to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

APPENDIX 3

LONDON BOROUGH OF SUTTON PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

1. Summary

- 1.1 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. This statement shows that the Administering Authority is compliant with the guidance from the Secretary of State.

Part 1: Pension fund administration

2. Delegation to the pension committee

Guidance:	Assessment:
2.1 The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant - This is discharged through a formal decision-making committee, the Pension Committee.
2.2 Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant - In addition to six Councillors, the Pension Committee includes a representative for all other employing bodies in the fund and an observer representing scheme members.
2.3 Where a secondary committee or panel has been established the structure ensures effective communication across both levels.	Not applicable as there is currently no secondary committee or panel.
2.4 Where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not applicable as there is currently no secondary committee or panel.

APPENDIX 3

3. Committee membership and representation

Guidance:	Assessment:
3.1 All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities, scheme members, independent professional observers, and expert advisors.	Compliant - All key stakeholders are represented on the Pension Committee.
3.2 Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant - All members are treated equally regarding access to papers, meetings and training. They are given full opportunity and encouragement to contribute to the decision making process.
3.3 Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant - Members receive induction training and further training to enable them to fulfil their roles and responsibilities.
3.4 At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant - Members receive briefings and training including the need to declare at the start of any meeting any financial or pecuniary interest related to specific matters on the agenda.

4. Voting

Guidance:	Assessment:
4.1 The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant - The policy on voting rights is clear and transparent. All elected members on the Pension Committee have equal voting rights. The single representative for all other employing bodies in the fund is appointed as a non-voting member. This is appropriate as admitted bodies are very small in number and size.

5. Training / facility time / expenses

Guidance:	Assessment:
5.1 In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant - Members have equal access to training and reimbursement of expenses to enable them to fulfil their roles and responsibilities.
5.2 That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant - As above.

APPENDIX 3

6. Meetings (frequency/ quorum)

Guidance:	Assessment:
6.1 An administering authority's main committee or committees meet at least quarterly.	Compliant - The Pension Fund Committee meet with a quorum at quarterly intervals as required by its terms of reference.
6.2 An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable as there is currently no secondary committee or panel.
6.3 An administering authority who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant - All key stakeholders are represented under the stakeholder representation arrangements described in Section 3 above.

7. Access

Guidance:	Assessment:
7.1 Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant - All members have equal access to papers, documents and advice.

8. Scope

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

9. Publicity

Guidance:	Assessment:
9.1 Administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	Compliant - The Governance Policy and Communications Policy are published on the Council's web site along with details of planned meetings of the Pension Committee that are open to stakeholders.

APPENDIX 3

Part 2: Arrangements for the local pension board

10. Functions of the board

Guidance:	Assessment:
10.1 The terms should set out the function of the Board i.e. to assist the Administering Authority to secure compliance and ensure the effective and efficient governance and administration of the LGPS.	<p>Compliant - The Board is responsible for assisting the Administering Authority (Sutton Council):</p> <ul style="list-style-type: none"> to secure compliance with the Regulations; other legislation relating to the governance and administration of the LGPS; and the requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS.

11. Membership

Guidance:	Assessment:
11.1. The terms should include the number of each category of Board member (including other representatives), the appointment and selection process, term of office and procedures for termination of office.	<p>Compliant - The Pension Board consists of 7 members and is constituted as follows:</p> <ul style="list-style-type: none"> 3 Scheme employer representatives 3 scheme member representatives 1 Independent member selected by the Administering Authority <p>Person specifications and job descriptions for each role. Vacancies are publicised. Officers from the Administering Authority assess each candidate's statement against the Person Specification and form a shortlist of suitable candidates. If there are more than 3 suitable candidates for each vacancy then a ballot will be held. Representatives serve for a fixed two year term which can be extended subject to re-nomination. Termination occurs automatically at the expiry of a term. Other than ceasing to be eligible a Board member may only be removed from office during a term by the unanimous agreement of all of the other Board members. The removal of the independent member requires the consent of the Scheme Manager.</p>

APPENDIX 3

12. Code of conduct

Guidance:	Assessment:
12.1. The terms should refer to the requirement for the Local Pension Board to have a code of conduct for its members and that members of the Board should abide by the code.	Compliant - Board members are subject to the code of conduct for Board members.

13. Voting rights

Guidance:	Assessment:
13.1. The terms should: set out that employer and member representatives of the Board have equal voting rights; indicate where the chair is from either the employer or member representatives whether the chair has a casting vote; and note that other members do not have voting rights on the Board.	Compliant - The Board consists of 6 voting members, as follows: 3 Member Representatives; and 3 Employer Representatives. There is an equal number of Member and Employer Representatives and 1 independent Chair who is not entitled to vote. Other members do not have voting rights on the Board.

14. Conflict of interests

Guidance:	Assessment:
14.1. The terms should refer to the requirement for the Board to always act within the terms of reference. The Local Pension Board should have a conflicts policy for its members and that members should abide by the policy and provide information that the Administering Authority may reasonably require from time to time to ensure that members do not have a conflict of interest.	Compliant – The term provide the purpose, scope and administrative procedures for the Board and requires the Board at all times to act in a reasonable manner in the conduct of its purpose and abide by the conflicts policy and code of conduct. All members of the Board must declare on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

15. Appointment of a chair / vice-chair

Guidance:	Assessment:
15.1. The terms should specify whether the Board is to have a chair and/or vice-chair and if so specify the roles, including administrative and leadership responsibilities, and how they are appointed.	Compliant – The terms cover the appointment of an independent chair and a vice chair and their responsibilities.

APPENDIX 3

16. Role of advisors

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

17. Role of officers

Guidance:	Assessment:
17.1. The terms should set out the role of officers of the Administering Authority to the Board, for example in the provision of secretariat services to the Board or providing pension fund information to the Board.	Compliant – The role of officers is to provide support to the Board. This includes support finance, pension administration and secretarial support.

18. Administration of meetings including data protection

Guidance:	Assessment:
18.1. The terms should include the notice period of Board meetings, the circulation of papers in advance of meetings, the decision making process, recording minutes of meetings, a procedure for dealing with urgent items of business and the publication of information.	Compliant – The Board meets as a minimum 3 times each year. The chair of the Board with the consent of the Board membership may call additional meetings. Meetings normally take place in the evening at the Civic Offices of the London Borough of Sutton Council. The agenda notice and supporting papers must be issued at least 5 clear working days in advance of a meeting except in the case of matters of urgency. Any urgent items of business must be agreed by the Chair and be of such matter that cannot wait until the next ordinary meeting. The Board seeks to reach consensus and decisions are put to a vote when it cannot be reached. Draft minutes of each meeting must be circulated to all Board members within 10 working days after the meeting. Draft minutes will 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.

APPENDIX 3

19. Quorum

Guidance:	Assessment:
19.1. The terms should specify a quorum for meetings and in particular whether the quorum should include a minimum number of employer and member representatives.	Compliant - A meeting is only quorate when at least one employer member representative, one employer representatives and the Independent Chair are present. Substitute members are included within the quorum. A meeting that becomes inquorate may continue but any decisions will be non-binding.

20. Attendance requirements

Guidance:	Assessment:
20.1. The terms should specify the requirements for attending meetings and the consequences of continued failure to attend Board meetings.	Compliant - Representatives should endeavour to attend all meetings and are required to attend at least 2 out of 3 meetings each year. Board membership may be terminated prior to the end of the term of office due to a Board member no longer being able to demonstrate to their capacity to attend and prepare for meetings or to participate in required training.

21. Role of substitutes

Guidance:	Assessment:
21.1. The terms should specify whether members are allowed to send substitutes to meetings where they are unable to attend themselves. Training requirements should also be considered where substitutes are permitted.	Compliant - Substitutes can be appointed by Member representatives. Where appointed, substitutes should be named and must undertake the same training as full members. Substitutes are allowed to attend on behalf of absent representatives if sufficient notice is given.

22. Creation of working groups / sub-Committees

Guidance:	Assessment:
22.1. The terms should specify whether the Board has the power to set up working groups or sub-committees.	Compliant - The Board may establish sub-committees.

APPENDIX 3

23. Allowances / expenses

Guidance:	Assessment:
23.1. The terms should specify the policy in relation to the payment of allowances and expenses to Board members.	Compliant - An annual allowance is paid to the Independent Chair, in line with the Administering Authority's policy on allowances. The Administering Authority does not pay allowances for Board members. Expenses are paid to Board members in line with the Administering Authority's policy on expenses.

24. Budget

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

25. Knowledge and Understanding

Guidance:	Assessment:
25.1. The terms should refer to the requirement for the Board to have a policy and framework to meet the knowledge and understanding requirements of the 2004 Act.	Compliant - The terms require the Board to establish and maintain a Knowledge and Understanding Policy and Framework to address the knowledge and understanding requirements of the Act.

26. Reporting

Guidance:	Assessment:
<p>26.1. The terms should include arrangements for the reporting of information to the Administering Authority including direct reporting arrangements where the Board has material concern. In addition the methods used to communicate to scheme members and employers should be included.</p>	<p>Compliant - The Board is required to report its requests, recommendations 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 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 members are also subject to the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistle blowing policy].</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>

APPENDIX 3

Policy Statement

ANNEX 1

The provision of information and publicity about the Scheme	The format, frequency and method of distributing such information or publicity
---	--

Members and Representatives of members

1. Pension Updates / bulletins are produced whenever a change is made to the regulations / where members may need to make an election regarding their entitlement.	<p>Electronic document.</p> <p>Produced as and when required by change in Regulations etc.</p> <p>Distributed via e-mail cascade (via Group HR Managers / employers) and via "Pensions" area of the Borough (& Schools) intranet.</p> <p>Item included in "insight"</p>
2. Annual Benefit Statements (ABS) / letter including any recent or anticipated changes to the LGPS.	<p>System generated printed statements show benefits accrued / estimated at 65 / Death in service, Nomination & Service History.</p> <p>Issued annually for year to previous 31 March.</p> <p>Marked "Private & Confidential" and posted to member home address</p>

Members and Representatives of members

<p>3. The “Pensions” area on the Borough (& School) intranet</p> <p>AND “Staff Pensions” on the LB Sutton website</p>	<p>Scheme information / Guide, recent updates (bulletins) and LINKS to the national LGPS site.</p> <p>Updates as necessary – change in Regulations etc.</p> <p>Newsletters / e-mail cascade point to intranet updates.</p> <p>As above also including all required forms for download, completion & sending to Sutton Pension Services for action.</p>
<p>4. Sutton Pension Services (SPS) are available to assist members with their enquiries.</p>	<p>Available as required or by appointment during normal office hours.</p> <p>Will assist members with their enquiries in person, by phone or respond to written (letter / email) requests.</p> <p>In all communications contact numbers / email addresses are provided so members can easily contact SPS if guidance is required.</p>
<p>5. Presentations to (groups of) staff / Scheme members.</p>	<p>Presentation supported by appropriate printed / electronic information.</p> <p>As required.</p>
<p>6. Presentations are made at Pre-retirement courses.</p>	<p>Presentation supported by appropriate printed / electronic information.</p> <p>As required.</p>

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

The provision of information and publicity about the Scheme	The format, frequency and method of distributing such information or publicity
Employing authorities	
<p>9. New starters with the Borough (and other scheme employers) are sent an “Employee Guide to the LGPS” with their offer of employment.</p> <p>Note “opt out” forms can only be obtained from Sutton Pension Services or from LB Sutton Website under Staff Pensions</p>	<p>Printed copy</p> <p>Can be downloaded for completion and sent to SPS or employer as appropriate, for action</p>

10. The LGPS Employer Guide and instructions on “Employer” responsibilities.	<p>Electronic / printed versions are available.</p> <p>Revised versions provided as necessary – change in Regulations etc.</p> <p>If necessary, meet with new employer to ensure understanding.</p>
11. LGA Pensions Committee Circulars / Guides	<p>Electronic / printed versions are available – circulated as received</p> <p>Video presentation on major changes – copy made available to employers / members</p>
12. CLG Regulation amendments / drafts / consultations	<p>Electronic / printed versions are available – circulated as received.</p> <p>Any response to draft / consultations copied back to borough</p>

Scheme promotion to prospective members / employing authority
<p>Prospective members:</p> <p>New starters with the Borough (and other scheme employers) receive an “Employee Guide to the LGPS” (with option forms etc) with their offer of employment.</p> <p>Sutton Pension Services (SPS) staff available to assist prospective members with their enquiries in person, by phone or to respond to written or email requests.</p> <p>SPS will make presentations to staff as necessary</p> <p>Can obtain further information from the National LGPS web site at www.lgps.org.uk at the Sutton Staff Pensions web page or national LGPS site at www.lgps2014.org;</p>

Employing authority:

The LGPS Employer Guide and instructions on “Employer” responsibilities are provided by SPS.

- * Electronic / printed versions are available.
- * Revised versions provided as necessary – change in Regulations etc.
- * If necessary, meet with new employer to ensure understanding.

APPENDIX 4

LONDON BOROUGH OF SUTTON PENSION FUND

COMMUNICATIONS POLICY

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

The policy must cover communications with:

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

In particular the policy on:

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

The Policy Statement is attached at Annex 1.

The provision of information and publicity about the Scheme	The format, frequency and method of distributing such information or publicity
Members and Representatives of members	
<p>1. Pension Updates / bulletins are produced whenever a change is made to the regulations / where members may need to make an election regarding their entitlement.</p>	<p>Electronic document.</p> <p>Produced as and when required by change in Regulations etc.</p> <p>Distributed via e-mail cascade (via Group HR Managers / employers) and via “Pensions” area of the Borough (& Schools) intranet.</p> <p>Item included in “insight”</p>
<p>2. Annual Benefit Statements (ABS) / letter including any recent or anticipated changes to the LGPS.</p>	<p>System generated printed statements show benefits accrued / estimated at 65 / Death in service, Nomination & Service History.</p> <p>Issued annually for year to previous 31 March.</p> <p>Marked “Private & Confidential” and posted to member home address</p>
<p>3. The “Pensions” area on the Borough (& School) intranet</p> <p>AND “Staff Pensions” on the LB Sutton website</p>	<p>Scheme information / Guide, recent updates (bulletins) and LINKS to the national LGPS site.</p> <p>Updates as necessary – change in Regulations etc.</p> <p>Newsletters / e-mail cascade point to intranet updates.</p> <p>As above also including all required forms for download, completion & sending to Sutton Pension Services for action.</p>

Members and Representatives of members	
4. Sutton Pension Services (SPS) are available to assist members with their enquiries.	<p>Available as required or by appointment during normal office hours.</p> <p>Will assist members with their enquiries in person, by phone or respond to written (letter / email) requests.</p> <p>In all communications contact numbers / email addresses are provided so members can easily contact SPS if guidance is required.</p>
5. Presentations to (groups of) staff / Scheme members.	<p>Presentation supported by appropriate printed / electronic information.</p> <p>As required.</p>
6. Presentations are made at Pre-retirement courses.	<p>Presentation supported by appropriate printed / electronic information.</p> <p>As required.</p>
7. Pension Drop in Days (surgeries)	<p>Held annually to coincide with the issue of Annual Benefit Statements (ABS) & pension update.</p> <p>Members / prospective members can meet SPS staff to discuss details of their ABS, receive further illustrations, information and printed documentation (FAQ etc)</p>
8. Pension Fund Annual Meeting –	<p>Held in July each year</p> <p>Review the Pension Fund Annual Report & Accounts, the work of the Pension Committee & Pension Fund investment performance.</p> <p>Invited speaker presentation on a current related topic.</p>

The provision of information and publicity about the Scheme	The format, frequency and method of distributing such information or publicity
Employing authorities	
<p>9. New starters with the Borough (and other scheme employers) are sent an "Employee Guide to the LGPS" with their offer of employment.</p> <p>Note "opt out" forms can only be obtained from Sutton Pension Services or from LB Sutton Website under Staff Pensions</p>	<p>Printed copy</p> <p>Can be downloaded for completion and sent to SPS or employer as appropriate, for action</p>
<p>10. The LGPS Employer Guide and instructions on "Employer" responsibilities.</p>	<p>Electronic / printed versions are available.</p> <p>Revised versions provided as necessary – change in Regulations etc.</p> <p>If necessary, meet with new employer to ensure understanding.</p>
<p>11. LGA Pensions Committee Circulars / Guides</p>	<p>Electronic / printed versions are available – circulated as received</p> <p>Video presentation on major changes – copy made available to employers / members</p>
<p>12. CLG Regulation amendments / drafts / consultations</p>	<p>Electronic / printed versions are available – circulated as received.</p> <p>Any response to draft / consultations copied back to borough</p>

Scheme promotion to prospective members / employing authority

Prospective members:

New starters with the Borough (and other scheme employers) receive an “Employee Guide to the LGPS” (with option forms etc) with their offer of employment.

Sutton Pension Services (SPS) staff available to assist prospective members with their enquiries in person, by phone or to respond to written or email requests.

SPS will make presentations to staff as necessary

Can obtain further information from the National LGPS web site at www.lgps.org.uk at the Sutton Staff Pensions web page or national LGPS site at www.lgps2014.org;

Employing authority:

The LGPS Employer Guide and instructions on “Employer” responsibilities are provided by SPS.

- * Electronic / printed versions are available.
- * Revised versions provided as necessary – change in Regulations etc.
- * If necessary, meet with new employer to ensure understanding.