LONDON BOROUGH OF SUTTON

PENSION FUND ANNUAL REPORT 2012/13

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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, mainly local government staff. The LGPS is currently a funded final salary scheme, with earnings banded fixed 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-proofed in line with increases in the Retail Price Index for September. The scheme is operated by designated administering authorities ~ each maintains a pension fund and invests 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 (and certain admitted bodies), excluding teachers who have their own specific scheme. 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.

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 marked against relevant market benchmarks.

Following the results of a triennial actuarial review of the pension fund the Council has revised its investment strategy after recommendations from its actuary. The revised strategy is discussed in the Statement of Investment Principles on page 36. The majority of the strategy has now been implemented and will be completed in 2013/14.

The review identified that Investment returns since 2007 were significantly below the assumptions made in the 2007 valuation and this has increased the net liability of the fund. The Sutton Fund outperformed the benchmark achieving a return of 13.5% compared to the benchmark return of 13.2%. Our investment policy is summarised on Page 5 and further details are set out in the statement of investment performance on Page 7.

MANAGEMENT ARRANGEMENTS

Administering Authority

London Borough of Sutton

Pension Committee Membership 2012/13

Councillors:
Roger Thistle (Chair)
John Leach (Vice Chair)
Eric Allen
Alan Salter
Sunita Gordon
Stephen Fenwick

Employer's Representative:
Brendan Crossan

Officers:
Gerald Almeroth, Strategic Director – Resources (lead Officer for the Pension Fund)
Lyndsey Gamble, Head of Financial Strategy &Planning
Lisa Doswell, Treasury & Investments Manager

Observer:
Adam Jordan, Unison

Advisors:
David Walker, Hymans Robertson

Actuaries

Peter Summers, Hymans Robertson

AVC Providers

Clerical Medical

Auditors

Grant Thornton

Performance Monitoring

WM Company

Custodians

Northern Trust

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:

- *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 – Aberdeen Asset Management*
  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.

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 2013, the benchmark was:

• Global Equities	42%
• UK Equities	13%
• Absolute return	15%
• Bonds	20%
• Property	10%

The Fund’s benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy. The same investment strategy is currently followed for all employers participating in the LBS pension fund.

INVESTMENT PERFORMANCE

<u>WM Company Local Authority Universe returns</u>

The WM Company provides a performance measuring service for pension funds. The average across local authority funds was a return of 13.8% in the year 2012/13.

In terms of equity markets, domestic equities returned 18.0%, whilst overseas returns ranged from 20.4% in Continental Europe to 10.5% in Emerging Markets.

UK Govt. bonds returned 6.4%, Corporate Bonds 12.6% and Index-Linked Securities 11.2%.

Property returned 2.8% over the year.

Infrastructure returned 10.6% over the year.

Pooled Multi Asset (includes Diversified Growth and Absolute Return strategies) returned 9.9% over the year.

<u>London Borough of Sutton Investments held at 31 March 2013</u>

The tables below shows the proportion of the Fund held by each investment manager at year end:

<u>Table 1</u>

Manager		**% of total fund**	**Value (£m)**
Newton	Equities	14	60
Legal & General	Equities	13	52
Harding Loevner	Equities	14	57
Schroder	Equities	14	59
Aberdeen Asset	Bonds	22	92
Baillie Gifford	Pooled Multi Asset	7	30
Pyrford	Pooled Multi Asset	7	29
BlackRock	Property	5	18
M&G	Absolute	2	6
AVIVA	Property	1	5
Partners Group	Infrastructure	1	2
TOTAL FUND		**100**	**410**

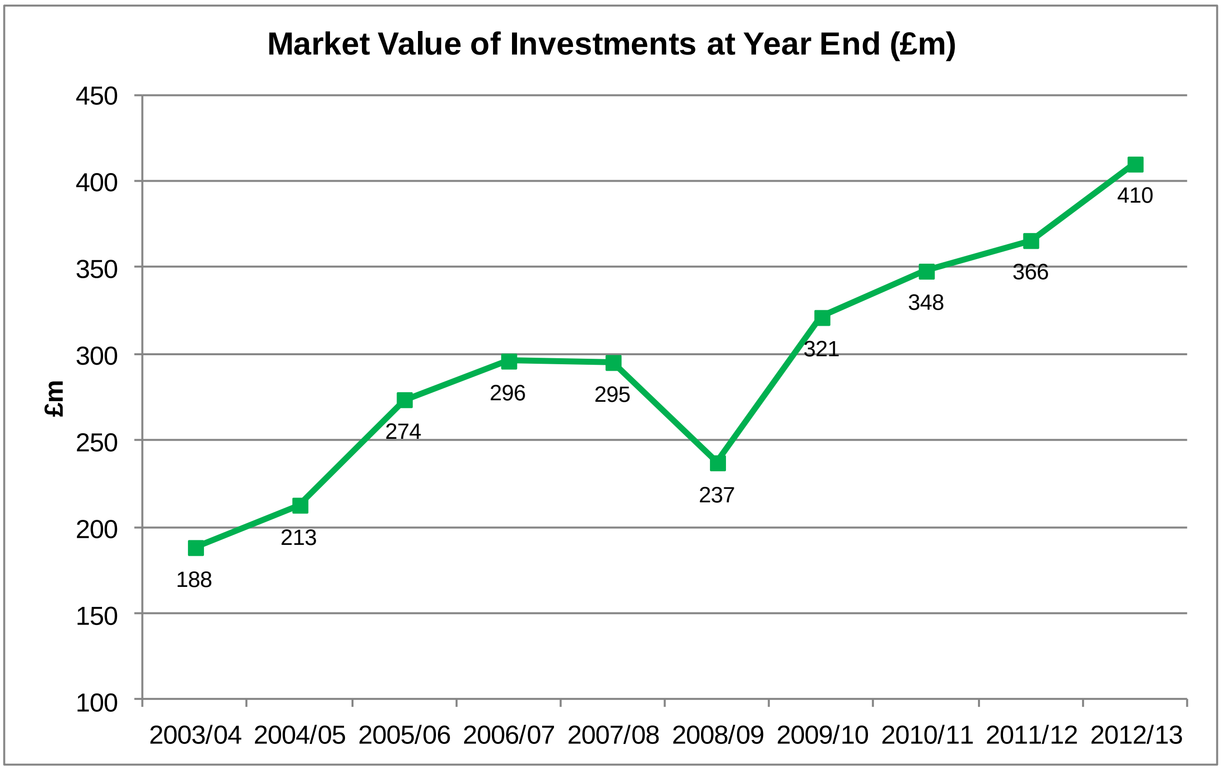
The performance of the individual managers, compared to the benchmark, for the year 2012/13 is as follows:

Table 2

Manager	Benchmark %	Performance %	Difference %
Newton*	16.7	18.8	2.1
Legal & General	15.3	15.4	0.1
Harding Loevner*	16.7	14.3	-2.4
Schroder*	16.7	17.1	0.4
Aberdeen Asset	12.2	12.5	0.3
Baillie Gifford*	0.2	7.4	7.2
Pyrford*	0.2	4.1	3.9
BlackRock	2.5	-15.9	-18.4
M&G	0.4	4.8	4.4
AVIVA	2.5	2.3	-0.2
Partners Group*	5.9	8.4	2.5
TOTAL FUND	**13.2**	**13.5**	**0.3**

* Managers were appointed during the year and therefore returns shown above are since inception.

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.

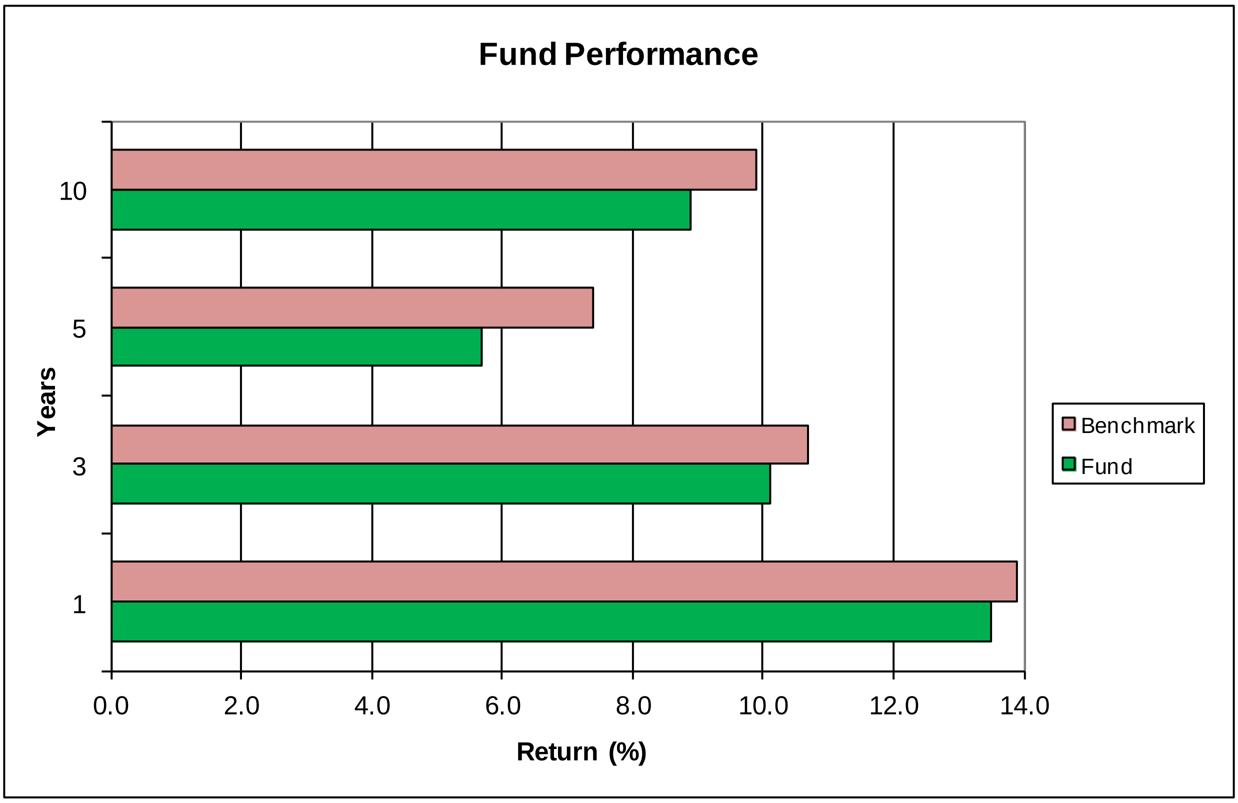
The Property portfolio was managed by RREEF (formally Deutsche Property Asset Management) until December 2012, when the RREEF UK Core Property Fund amalgamated with BlackRock's UK Property Fund.

Fund Performance

Each manager has been set a performance objective against the relevant benchmark over a three year rolling period:

- Newton + 2% per annum (gross of fees);
- Harding Loevner +3% per annum (gross of fees);
- Schroder's +3% per annum (gross of fees);
- Legal and General is a passive manager and as such their objective is to match the benchmark;
- Baillie Gifford +3% per annum (gross of fees);
- Pyrford +3% per annum (gross of fees);
- BlackRock is to outperform the benchmark;
- Aberdeen Asset + 0.75% per annum (gross of fees);
- Partner's Group targets an absolute return of 8% per annum;
- The M&G fund targets a return of 10% per annum net of fees; and
- AVIVA is to outperform the benchmark.

As shown in the table below, the Fund failed to achieve its benchmark over 10 years by 0.4% p.a., 5 years by 0.6% p.a., 3 years by 1.7% p.a. and 1.0% over the last 12 months.



London Borough of Sutton Pension Fund ("the Fund") Actuarial Statement for 2012/13

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of funding policy

The funding policy is set out in the Fund's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and scheduled and admitted bodies;
- manage employers' liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 22 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the modelling, there is still a sufficiently high likelihood that the Fund will return to full funding over 22 years.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £337 million, were sufficient to meet 69% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £153 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation (CPI)/Pension increases	3.3%	-

* 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.0 years	23.8 years
Future Pensioners*	22.9 years	25.7 years

* based on members aged 45 at the valuation date.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from the London Borough of Sutton, administering authority to the Fund.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Geoffrey Nathan

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

13 August 2013

Hymans Robertson LLP

20 Waterloo Street

Glasgow

G2 6DB

London Borough of Sutton Pension Fund Accounts
for the Year Ended 31 March 2013

2011/12 £'000		Notes	2012/13 £'000
	Contributions and Benefits		
	Contributions Receivable:		
20,393	From Employers	2	21,136
5,658	From Employees or Scheme Members	2	5,353
3,298	Transfers In	4	5,365
29,349	**Sub-Total Income**		**31,854**
	Benefits Payable:		
15,474	Pensions	3	16,910
6,070	Lump Sum Retirement Grants	3	2,634
300	Lump Sum Death Benefits	3	646
	Payments to and on account of Leavers:		
63	Refund of Contributions		15
2,034	Transfers Out		3,283
557	Administrative and Other Expenses		549
24,498	**Sub-Total Expenses**		**24,037**
4,851	**Net Addition from Dealings with Scheme Members**		**7,817**
	Return on Investments		
8,813	Investment Income	6d	7,382
(306)	Taxes on Income	6e	(347)
4,217	Increase/(Decrease) in Market Value of Investments		41,666
(906)	Investment Management Expenses		(1,445)
11,818	**Net Return on Investments**		**47,256**
16,669	**Net Increase/(Decrease) in Fund During Year**		**55,073**
355,355	Opening Net Assets of the Scheme		372,024
372,024	**Total Net Assets at 31 March**		**427,097**
	Net Assets Statement		
	Investment Assets:		
244,179	Equities		245,392
24,964	Fixed Interest Securities - Public Sector		43,941
51,169	- Other		69,249
8,840	Index Linked Securities - Public Sector		11,056
26,645	Property Fund		22,469
0	Other		11,449
355,797	**Sub-Total Securities**	6b	**403,556**
5,544	Loans to businesses	6b	6,485
3,430	Cash		3,099
1,011	Debtors		786
365,782	**Total Investment Assets**	6a	**413,926**

	Current Assets	
6,127	Cash in Hand	12,365
359	Debtors (Contributions from Employers)	901
(244)	Current Liabilities	(95)
372,024	**Total Net Assets at 31 March**	**427,097**

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

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

As at 31 March, membership of the fund comprised

31 March 2012 No.		31 March 2013 No.
3,962	Employees & Council Members	3,937
3,030	Pensioners and dependants	3,097
3,356	Former Employees - deferred benefits	3,593
10,348	**Total**	**10,627**

2. Contributions to the Fund

Scheme members make contributions to the Fund by deductions from earnings. From 1 April 2008 members' contribution rates vary between 5.5% and 7.5% depending on their pay band. Following the 2010 actuarial valuation, the employers' contribution rate was set at 21.5% of employees' earnings (17.4% future service rate and 4.1% deficit contribution).

For Scheduled Bodies the employers' rates of contribution were:

- Carshalton College – 16.9% plus £216k
- Sutton Housing Partnership – 18.0% plus £89k and a capital payment for the deficit contribution

For Admitted Bodies the employers' rates of contribution were:

- Bandon Hill Joint Cemetery Committee – 33.7%
- Citizens Advice Bureaux – 33.7%

- Housing21 – 22.4%
- H21 (Dementia Voice) – 19.0%
- ThamesReach – 16.7%
- Sports and Leisure Management – 18.7%

Contributions to the Pension Fund were as follows:-

2011/12		2012/13
£'000		**£'000**
	Employers Contributions	
15,078	London Borough of Sutton excl. Academy Schools	14,935
1,855	London Borough of Sutton - Academy Schools	2,479
	London Borough of Sutton - Academy Schools	
1,972	London Borough of Sutton - Recovery of Early Retirement Costs	2,451
	Scheduled Bodies	
653	- Carshalton College	495
703	- Sutton Housing Partnership	679
132	Admitted Bodies	97
20,393		**21,136**
	Active Members Contributions	
4,677	London Borough of Sutton excl. Academy Schools	4,328
547	London Borough of Sutton - Academy Schools	677
	Scheduled Bodies	

174	- Carshalton College	106
228	- Sutton Housing Partnership	216
32	Admitted Bodies	26
5,658		**5,353**

3. Analysis of Benefits Payable

2011/12		2012/13
£'000		**£'000**
21,059	London Borough of Sutton excl. Academy Schools	19,521
109	London Borough of Sutton - Academy Schools	183
	Scheduled Bodies	
298	- Carshalton College	68
294	- Sutton Housing Partnership	341
84	Admitted Bodies	77
21,844	**Total Benefits Payable**	**20,190**

4. Transfers In

This includes £4,371,000 in respect of the bulk transfer of pension liabilities from the London Borough of Merton.

5. Accounting Policies

The accounts summarise the transactions and net assets of the fund. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2013. This liability is included within the individual employer's balance sheet.

The financial statements have been prepared on a going concern basis. The accounts have also been prepared on an accruals basis and in accordance with the Statement of Recommended Practice (SORP) as applicable to Local Authorities, and the provisions of Chapter 2 Recommended Accounting Practice of the Pension SORP 2007. In particular:

a) Valuation of 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. Market values for all securities (current bid price) are determined by prices quoted on stock exchanges at 31 March 2013.

Where market values have not been available, the investments have been recognised on an appropriate fair value basis. 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. Newton, Schroders, Harding Loevner, Pyrford, Baillie Gifford, BlackRock and Aberdeen are also unitised pooled funds, which are not quoted, however the underlying assets of these funds are quoted.

The pooled vehicle held with AVIVA is also 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 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 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) 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.

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 and then received on the official pay date, at which point it is reflected in 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.

c) 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. Following the termination of a segregated portfolio and resultant introduction of a new pooled fund mandate, a performance related termination fee was payable during 12/13, which related to the previous four year's fund performance and totalled £503K.

Investment consultant fees are included in investment management expenses and a proportion of relevant officers' salaries, including related oncosts, has been charged to the Fund.

d) 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.

e) 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.

f) Assumptions made about the future and other major sources of estimation uncertainty

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 0.5 decrease in the discount rate assumption would result in an approximate increase of £59.6m (9%) in the Council's pension liability; a one year increase in member life expectancy would increase the liability by approximately £19.5m (3%); a 0.5% increase in the salary increase rate would increase the liability by approximately £14.1m (2%).
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 £13.6m. 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 nine different fund managers. In June 2012 Partner's Group, an infrastructure investment manager was appointed. Following the implementation of a new investment strategy in October 2012, a further four new fund managers were appointed; Harding Loevner and Schroder was appointed to two new pooled global equity fund mandates and Baillie Gifford and Pyrford was appointed to two new pooled absolute return mandates. An existing segregated mandate with Newton was transferred to a new pooled global equity fund mandate with them and an existing pooled global equity fund with L&G was transferred to a pooled UK equity fund. During December 2012 the existing RREEF UK Core Property Fund amalgamated with BlackRock’s UK Property Fund.

Legal & General (L&G), Newton Investment Management (Newton), Harding Loevner, Schroder, Baillie Gifford, Pyrford, Aberdeen Asset Management (Aberdeen), BlackRock and Partner's Group are employed as investment managers. The Fund is also invested in two separate funds; M&G UK Companies Financing Fund and Aviva Investors UK Real Estate Fund of Funds Plan.

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 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 2013 totalled £410.04 million split as follows:

	£m	**% of Investment Assets**
Legal & General (equities)	52.036	12.7%
Newton (equities)	59.544	14.5%
Aberdeen (bonds)	91.868	22.4%
Blackrock (Formerly RREEF - property)	17.328	4.2%
M & G Loans to businesses	6.485	1.6%
AVIVA (property)	4.930	1.2%
Partners Group (Private Infrastructure)	2.196	0.5%
Schroders (equities)	59.192	14.5%
Harding Loevner (equities)	57.382	14.0%
Baillie Gifford (equities)	29.940	7.3%
Pyrford (equities)	29.140	7.1%
Total	**410.041**	**100.0%**

£335.421 million of the Fund's assets are held in unitised form, comprising the bond and property assets and some equity unit trusts. Excluding equity unit trusts, the largest
unitised holding is Aberdeen's Long Dated Sterling Credit Fund, representing 10.7% of net assets. There is no other individual holding of more than 5%.

b) Analysis of Investments

31/03/2012 £'000		31/03/2013 £'000
	Equities:	
111,259	UK Quoted	73,913
132,919	Overseas Quoted	171,479
	Fixed Interest Securities:	
	- UK	
13,019	Public sector quoted	25,205
13,404	Corporate quoted	33,415
	- Overseas	
11,945	Public sector quoted	18,736
37,766	Corporate quoted	35,834
	Index linked securities:	
8,840	UK Public sector quoted	9,543
0	Overseas Public sector quoted	1,513
	Property:	
	- UK	
21,814	Property fund quoted:	17,539
	- Overseas	
4,831	Property Unit Trust unquoted	4,930
	Loans to business:	
5,544	Unit Trust unquoted	6,485
	Other:	
0	Quoted	9,253
0	Unquoted - Private Equity Infrastructure	2,196
361,341		**410,041**
	Pooled funds - additional analysis:	
	- UK	
	Equities:	
59,328	Unit Trusts	62,889
0	Other pooled equities	11,024
	Fixed Interest Securities:	
76,132	Fixed income bonds	97,907
	Indexed Linked Securities:	
8,840	Indexed linked bond	9,543
	Property:	
21,814	Unit Trust	17,328
0	Other	211
	Loans to business:	
5,544	Unit Trust	6,485
	- Overseas	
	Equities:	
61,988	Unit Trust	107,883
0	Other pooled equities	63,596
	Fixed Interest Securities:	
0	Other	16,796
	Property:	
4,831	Unit Trust	4,930

	Other:	
0	Other pooled investments	11,449
238,477		**410,041**

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

c) Investment Movement Summary

Investment Movement Summary 2012/13	**Value at 31/03/2012**	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/2013**
	£m	**£m**	**£m**	**£m**	**£m**
Equities	244.2	189.9	(206.8)	18.1	245.4
Bonds	85.0	55.9	(26.7)	10.1	124.3
Property	26.6	24.2	(23.8)	(4.6)	22.4
Total	355.8	270.0	(257.3)	23.6	392.1
Loans to:					
Businesses	5.5	1.2	0.0	(0.2)	6.5
Transition	0.0	262.3	(279.9)	17.6	0.0
Other	0.0	12.2	(1.5)	0.7	11.4
Cash	3.4				3.1
Debtors	1.0				0.8
Total Investment Assets	**365.7**			**41.7**	**413.9**

The Transition is related to the movement of funds from existing to newly appointed fund managers. Note 6(a) refers.

Comparative Movements in 2011/12	Value at 31/03/2011	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2012
	£m	£m	£m	£m	£m
Equities	241.5	51.6	(45.5)	(3.4)	244.2
Bonds	74.6	56.3	(53.3)	7.4	85.0
Property	20.6	5.6		0.4	26.6
Total	336.7	113.5	(98.8)	4.4	355.8
Loans to:					
Businesses	2.7	3.0		(0.2)	5.5
Other Investment balances:					
Cash	4.9				3.4
Debtors	1.3				1.0
Total Investment Assets	**345.6**				**365.7**

Transition costs included in the cost of purchases and in sale proceeds total £152,000 (£122,000 in 2011/12)

d) Investment Income (Gross)

31/03/2012 £'000		31/03/2013 £'000
4,594	Equities	2,486
2,987	Bonds	2,743
752	Property	1,282
8,333		6,511
219	Loans to Business	284
261	Other	587
8,813		7,382

e) Taxes on Income

31/03/2012 £'000		31/03/2013 £'000
(212)	Tax Withheld - Equities	(149)
0	Tax Withheld - Bonds	0
(92)	Tax Withheld - Property	(193)
(2)	UK Income Tax - Property	(5)
(306)		(347)

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.

Given the current economic situation, it is possible that fluctuations in the value of assets may have occurred since the balance sheet date. In view of recent market trends, the Council has reviewed the latest valuation data available from its main fund managers. This revealed that as at the 28th June 2013 the value of investments has decreased by just over 1%, equivalent to a net decrease of £5.5m.

There have been no events since the 31 March 2013, and up to the date when these accounts were authorised, that require any adjustment to these accounts. The accounts were authorised by the Strategic Director - Resources, Gerald Almeroth, on 28 June 2013.

8. Actuarial Position

Pension Fund regulations require actuarial valuations to be prepared every three years. The last triennial valuation as at 31 March 2010 was prepared by Hymans Robertson, the Council’s actuary. The valuation showed Fund assets, which at 31 March 2010 were valued at £337 million were sufficient to meet 69% of the liabilities (i.e. the present value of promised retirement benefits accrued up to that date). Following a stabilising exercise the overall employer contribution rate for LB Sutton will remain at 21.5% subject to a minimum cash sum being paid to meet the past service deficit (i.e. 17.4% of employees’ earnings to fund future service deficit and the greater of 4.1% or £3,170,000 in 2011/12, £3,202,000 in 2012/13 and £3,371,000 in 2013/14 to fund past service liabilities.) This rate is intended to make good the deficit over a 22 year period, as assessed by the Council’s actuary, following a separate stabilisation modelling exercise.

<u>Funding Method</u>

The funding method used identifies separately the estimated cost of members' benefits in respect of scheme membership completed before 31 March 2010 ('past service') and in respect of scheme membership expected to be completed after 31 March 2010 ('future service').

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. Financial assumptions typically try to anticipate the size of these benefits.

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

Financial Assumptions

A summary of the main financial assumptions adopted for the 2010 valuation of members benefits is shown below.

	31 March 2010	
	% p.a.	% p.a.
Financial assumptions	Nominal	Real
Funding basis discount rate	6.1%	2.8%
Pay increases*	5.3%	2.0%
Price inflation (CPI)/Pension increases	3.3%	-

* 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter. 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 Fund's members. The Actuary has adopted assumptions which give the following sample average future life expectancies for members:

	Males	Females
Current Pensioners	21.0 years	23.8 years
Future Pensioners*	22.9 years	25.7 years

* based on 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 £714 million as at 31 March 2013 (£605 million as at 31 March 2012). 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 2010. The Actuary estimates this liability at 31 March 2013 comprises £375 million in respect of employee members, £124 million in respect of deferred pensioners and £215 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 2013 is to increase the actuarial present value by £80m.

<u>(i) Financial Assumptions</u>

The Actuary's recommended financial assumptions are summarised below:

Year ended	31 March 2013 % p.a.	31 March 2012 % p.a.
Inflation/Pension Increase Rate	2.8%	2.5%
Salary Increase Rate*	5.1%**	4.8%*
Discount Rate	4.5%	4.8%

*salary increases are 1% p.a. nominal until 31 March 2015, reverting to the longer term rate thereafter
**'salary increases were 1% p.a. nominal until 31 March 2016, reverting to the longer term rate thereafter

<u>(ii) Longevity Assumption</u>
The life expectancy assumption is based on the standard SAPS tables, with improvements from 2007 in line with the Medium Cohort and 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.0 years	23.8 years
Future Pensioners*	22.9 years	25.7 years

* Future pensioners are assumed to be currently aged 45

<u>(iii) Commutation Assumption</u>

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 2008 service.

Copies of the 2010 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 2013. 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 2013 confirming the amounts held to their account and the movements in the year. In the year to May 2013 AVC's paid by members amounted to £192k (£232k in 2012) and £243k was paid out by the scheme (£229k in 2012). At 31 May 2013 the total value of these AVC's was £1,225k (£1,105k at 31 May 2012). Note this is an externally provided scheme and valuations are given at the scheme date which is 31 May.

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 £9.3 million of surplus cash deposited with the Council during 2012/13. The Council charged the Fund £549,000 for expenses incurred in administering the Fund. The Council is also the single largest employer of members of the pension fund and contributed £19.865m to the fund (£18.905m in 2011/12), note 2 refers.

Key Management Personnel

The key management personnel disclosure requirement is satisfied by the disclosure of officer remuneration and members' allowances found in the Council's main accounts.

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	
	2011/12	**2012/13**	**2011/12**	**2012/13**	**2011/12**	**2012/13**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial Assets						
Fixed Interest Securities	76,133	113,190				
Index Linked Securities	8,840	11,056				
Equities	244,179	245,392				
Pooled property investments	26,645	22,469				
Other*		11,449				
Derivative contracts						
Investment Cash			3,430	3,099		
Other investment balances			5,544	6,485		
Investment Debtors			1,011	786		
	355,797	**403,556**	**9,985**	**10,370**	**0**	**0**
Cash in hand			6,127	12,365		
Debtors			359	901		
	355,797	**403,556**	**16,471**	**23,636**	**0**	**0**
Financial Liabilities						
Derivative contracts						
Other investment balances						
Creditors					(244)	(95)
Borrowings						
	0	**0**	**0**	**0**	**(244)**	**(95)**
	355,797	**403,556**	**16,471**	**23,636**	**(244)**	**(95)**

Current assets, which are separate to investment assets have been additionally disclosed in 2012/13.

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

b) Net Gains and Losses on Financial Instruments

	2011/12 £'000	2012/13 £'000
Financial Assets		
Fair value through profit and loss	7,896	41,960
Loans and receivables	58	(294)
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	**7,954**	**41,666**

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	
	2011/12	2012/13	2011/12	2012/13
	£'000	£'000	£'000	£'000
Financial Assets				
Fair value through profit and loss	323,505	365,124	355,797	403,556
Loans and receivables	9,985	10,370	9,985	10,370
Total financial assets	**333,490**	**375,494**	**365,782**	**413,926**
Financial Liabilities				
Fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(1,918)	0	(1,918)	0
Total financial liabilities	**(1,918)**	**0**	**(1,918)**	**0**

Only financial assets and liabilities that relate to investments are included in the table above.

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.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31/03/13	**Level 1**	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Financial assets at fair value through profit and loss	384,032	17,328	2,196	403,556
Loans and receivables	3,885	0	6,485	10,370
Total Financial Assets	387,917	17,328	8,681	413,926
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(681)	0	0	(681)
Total Financial Liabilities	**(681)**	**0**	**0**	**(681)**
Net Financial Assets	**387,236**	**17,328**	**8,681**	**413,245**

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31/03/12	**Level 1**	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Financial assets at fair value through profit and loss	326,230	27,618	1,948	355,796
Loans and receivables	4,441	0	5,544	9,985
Total Financial Assets	330,671	27,618	7,492	365,781
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(244)	0	0	(244)
Total Financial Liabilities	**(244)**	**0**	**0**	**(244)**
Net Financial Assets	**330,427**	**27,618**	**7,492**	**365,537**

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 2012/13 and 2011/12 as shown in the tables below.

Asset Type	Value as at 31/03/2013	% Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	3,099	0.8	3,124	3,075
Investment portfolio assets:				
UK bonds	43,909	7.9	47,378	40,440
Overseas bonds	65,026	10.4	71,789	58,263
UK equities	73,913	16.0	85,740	62,087
Overseas equities	171,479	19.0	204,060	138,898
Index linked gilts	15,311	5.9	16,215	14,408
Property	22,469	14.5	25,727	19,211
Other - Venture Capital	11,449	27.8	14,631	8,266
Loans to businesses	6,485	0.0	6,485	6,485
Other - Debtors	786	0.0	786	786
Total assets available to pay benefits	**413,926**		**475,935**	**351,919**

Asset Type	Value as at 31/03/2012	% Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	3,430	0.8	3,457	3,403
Investment portfolio assets:				
UK bonds	26,422	7.8	28,483	24,361
Overseas bonds	49,711	10.3	54,831	44,591
UK equities	111,259	17.0	130,173	92,345
Overseas equities	132,919	19.7	159,104	106,734
Index linked gilts	8,840	5.9	9,362	8,318
Property	26,645	14.5	30,509	22,781
Other - Venture Capital	0	28.5	0	0
Loans to businesses	5,544	0.0	5,544	5,544
Other - Debtors	1,011	0.0	1,011	1,011
Total assets available to pay benefits	**365,781**		**422,474**	**309,088**

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 2012/13 and 2011/12. 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 31/03/2013	Change to net assets available to pay benefits	
	£000	13%	-13%
Overseas Corporate Bonds	2,879	3,253	2,505
Overseas Unit Trust Bonds	8,340	9,424	7,256
Venture Capital & Partnerships	2,196	2,481	1,910
Total assets available to pay benefits	13,415	15,158	11,671

Currency Exposure - Asset Type	Value as at 31/03/2012	Change to net assets available to pay benefits	
	£000	13%	-13%
Overseas Equities - Common Stock	69,406	78,429	60,384
Overseas Equities - Preferred Stock	1,048	1,184	911
Overseas Equities - Rights/Warrants	444	502	386
Overseas Corporate Bonds	0	0	0
Overseas Unit Trust Bonds	7,456	8,426	6,487
Venture Capital & Partnerships	0	0	0
Total assets available to pay benefits	78,354	88,541	68,168

Interest Rate Risk

The Pension Fund is exposed to significant risk in terms of exposure to interest rate movements on its investments. To mitigate this risk, the Fund invests in at least one investment fund which seeks to attain a fixed rate of return.

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.

The Council holds some cash on behalf of the Pension Fund through its treasury management arrangements. As such these funds are only invested with institutions on the Council's approved counterparty list, which is carefully monitored to manage exposure to credit risk. The Fund's cash holding under its treasury management arrangements at 31/03/13 was £11.848m (£5.470m at 31/03/12)

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.

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 2012/13.

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.

AUDITORS CERTIFICATE

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To follow……..

Audit Commission

Date

PENSION ADMINISTRATION STRATEGY

Sutton Pension Services (SPS)

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

We undertake the administration of the Local Government Pension Scheme (LGPS) Regulations and associated legislation, for approximately 10,565 members, covering non-teaching staff employed by London Borough of Sutton, Sutton Housing Partnership (SHP), Carshalton College, CAB, Bandon Hill Cemetery Joint Committee, other TUPE transferee contractors admitted to the scheme and elected Members of the Borough (special provisions). 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 40 other (off payroll) employers; 32 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 AXISe 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.
- 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.

Main work streams impacting pension administration in 2012/13

Redundancy & Early Retirement

There was continuing high demand for costing of potential redundancies for employing Directorates and processing of entitlements on actual termination.

Replacement HR/ Payroll system (iTrent) & Payroll service (Agilisys)

A shared procurement with partners Merton and Kingston:

Pension Payroll

- Pensioners were reminded in April 2012 that as part of Council's ongoing efficiency drive agreed that production of hard copy pay slips would be limited to April and March each financial year, additional slips only if net pension differs by at least £5.00 when compared to the previous month;
- A statement of all payments made in the previous financial year to be provided in April each year, starting in 2013;
- Applied the newly developed process to uplift the pension increase amounts calculated in the AXIS pension system so the 5.2% (CPI) increase was correctly applied in the April 2012 payroll.

A revised charging basis for pension payroll was agreed which will result in substantial savings to the pensions fund administration from 2013/14.

Staff Payrolls

- Pension scheme requirements agreed & set up across all payrolls, tested in parallel running ahead of "go live" in April 2012;
- Using the agreed new annual review process the appropriate banded rate of employee contributions for each post held by scheme members was applied from April 2012;
- Revised employer contribution rates via payroll deduction were loaded ready for April 2012 payroll. For the Sutton pool employers this was set at 17.4% the "future service" rate with the "deficit" contribution collected as a cash sum in accordance with the valuation of the fund as at 31 March 2010.

Restricting tax relief on Pension savings

The required Annual Allowance calculations from 2011/12 and retrospectively for the three years from 2008/09 were undertaken within the AXIS Pensions Administration system.

A communication was circulated to the membership and included in the notes sent with the 3,500 Annual Benefit Statements, reminding members that from 2011/12 the Annual Allowance (AA) of £50k replaced the previous £225k limit and from 2012/13 the Standard Lifetime Allowance (SLA) reduced from £1.8m to £1.5m. They were also informed that the government had recently announced a further reduction to £40k (AA) & £1.25m (SLA) from April 2014.

Communities & Local Government (CLG) LGPS consultation

Following the consultation in late 2011 the government announced that instead of the proposed short term employee contributions increases in 2012 followed by the introduction of the new LGPS in 2015, there would now be a single change for the LGPS from April 2014. As a result the effect of the planned changes can be taken into account in the 2013 valuations.

There were several consultations in relation to the new "career average revalued earnings" (CARE) scheme during 2012/13 and these will continue towards the final regulations being in place in mid 2013, effective from April 2014.

The "LGPS2014 Project" website www.lgps2014.org provides general information about the proposed changes to the LGPS from 1 April 2014.

Academy Schools
All 14 of the schools that converted to academy status in 2011/12 required an accounting reporting FRS17 assessment for the year to 31 August 2012.

The main fund annual accounting reporting FRS17/ IAS19 was also affected by the separation of academy school membership / contribution data. The data required for the next triennial valuation of the fund as at 31 March 2013 will also be affected.

New Transferee Admission Agreements
Two new admission agreements were set up to provide continuing access to the LGPS for staff being TUPE transferred to contractors delivering services to the borough from April 2013.

Key Activity in 2012/13

- Completed year end processing 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 40 other scheme employers who use alternative payroll providers.
- Revised employer contribution rates resulting from the Triennial valuation of the fund as at 31 March 2010 were applied from April 2012. The borough is committed to a cash payment to underpin any shortfall in the deficit recovery contribution arising from reducing active membership, two of the funds other scheduled bodies 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 2013/14 budget consultation and to inform decisions on future service delivery options, including potential shared services.
- Pensions into payment in 2012/13; age retirements (active members & preserved benefit) 106, ill health 5 & redundancy / efficiency 34.
- Increased volumes – fund membership (Active / Preserved & Retired) growth around 2% (10,565 / 10,350) in the year to March 2013, (5% in years to March 2010 & 2.5% in 2011/12).
- Increasing caseload volumes – ratio of members to FTE Pension staff 2,588 (10,350/4 in 2011/12) up to 2,641 (10,565/4 in 2012/13))
- Increased number of employers using alternative payroll providers (40 in 2012/13) where manual monthly returns / pension record adjustments and special annual contribution postings are processed, make up around 27% of the active membership.

APPENDIX 1

LONDON BOROUGH OF SUTTON PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

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. The LGPS is currently a funded final salary scheme, with fixed 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-proofed in line with increases in the Retail Price Index for September. The scheme is operated by designated administering authorities ~ each maintains a pension fund and invests monies not needed immediately.

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

- A Career Average Revalued Earnings (CARE) Scheme using CPI as the revaluation factor;
- The accrual rate will change to 1/49th as opposed to 1/60th under the current scheme;
- There will be no normal scheme pension age, instead each member’s Normal Pension Age (NPA) would be their state pension age –the current scheme has a NPA of 65;
- Average member contributions to the scheme will be 6.5% (same as the current scheme) with the rate determined on actual pay –the current scheme determines;
- 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 pension matters.

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 a scrutiny role.

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 currently provides benefits related to final salary for members. From 1st April this will be based on career average revalued 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 fall into. 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 actuaries, Hymans Robertson, undertook a full triennial valuation of the Pension Fund as at 31 March 2010.

The results of the valuation of the Fund as at 31 March 2010 showed that fund liabilities totalled £490m and assets £337m. The Fund therefore had a deficit of

£153m and an overall funding level of 69%. Investment returns were lower than the assumptions used at the last valuation and therefore the level of funding had decreased by 7% from 76%.

The Council adopted the actuary's recommendation for the employer's contribution rate to remain at 21.5% of payroll. The contribution rate comprises of a future service funding rate of 17.4% and a past service adjustment rate which is the greater of 4.1% or £3.170m in 2012/13, 17.4% plus 4.1% or £3.202m in 2013/14 and 17.4% plus 4.1% or £3.371m in 2014/15 The past service adjustment rate is intended 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 2013 and the results will be reported to the Pensions Committee in November 2013. This valuation will assess the fund value as at 31 March 2013 and will determine contribution rates from 1st April 2014.

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 had slightly increased since the previous valuation. 57% of the current liabilities of the Fund related to pensioners and deferred pensioners rather than active members. This compares to 59% in 2007 and 56% in the 2004 valuation. Net cash flows into the Fund were positive up to March 2011 but outflows due to redundancies have led to a neutral cash flow position since then.

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 Council Committee staff. The Committee also receives advice as necessary from the investment managers, the fund actuary and an independent 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.

Section 4 – Investment Strategy

Strategy Review

Following the most recent three yearly actuarial review 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 are currently being actioned:

Equities

1. Change the Fund's equity allocation from a 50/50 UK/overseas split to a 30/70 split.
2. Move the Newton mandate to a market cap based benchmark.
3. Revise the L&G benchmark to maintain a balanced exposure across the equity regions.
4. Introduce a degree of currency hedging against the Fund's overseas equity investments.
5. 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.

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 two years. There are still some minor changes being made to the structure of the fund which should be completed by 2013/14.

Section 5 – Investment Approach

Investment Goal

Investment returns on 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 pensions 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 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 the equity and pooled multi asset managers are either a set or tiered fee based on the value of assets under management. The bond manager's fees are a base fee plus a percentage value of the portfolio and the property manager's fees are a percentage value of the portfolio. Fees for the infrastructure manager vary according to the type of investment undertaken.

Review

The investment strategy is reviewed regularly.

Reporting

The performance of individual investment managers is reported at each 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 – Aberdeen Asset Management*
  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.

<u>Custody</u>

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

<u>Investment risk</u>

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 the 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 is Annex 2.

Stock Lending

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

Section 7 - Socially Responsible Investment

Policy Statement

We believe that non-financial factors should not drive the investment process at the cost of financial return on the Council's Pension Fund. However, we ask the fund managers, 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) we believe that the Fund managers must take account of it.

We believe 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, we ask our Fund Managers 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

We will develop and clarify our policy of direct communication with companies where we believe their activities are not in accordance with criteria required for producing stable long-term financial results. To this effect, we will work in partnership with our Fund Managers and advisers to develop practical and sustainable criteria and to identify the means to demonstrate measurable results.

We will ask our managers to vote in accordance with our policy which is based on the principles of best practice of corporate governance as laid out in the Combined Code. As such, we will tend to vote in favour of company management except in cases judged by our fund managers to be in breach of the code or when our fund managers feel that companies are not acting in the best interests of shareholders. In these cases we 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 Sector Treasury Services Limited, independent advisers in Treasury, Risk Management and Specialist Funding.
We will review the policies in this Statement at least annually or more frequently on any material policy change. We will make available, on request, further details of our 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 our 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, our Fund managers will be asked to vote shares in UK companies in accordance with this policy. We retain a commitment to pragmatic and flexible voting and we would instruct our fund managers to contact us on any matters of corporate governance, which might be considered to be contentious.

Policy

Our policy is based on the principles of best practice of corporate governance as laid out in the Combined Code. As such, we will tend to vote in favour of company management, except in cases judged by our fund managers to be in breach of the code or when our fund managers feel that companies are not acting in the best interests of shareholders. In these cases we 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, we ask our fund managers to assess each resolution on a case by case basis and implement our policy in a flexible manner. We consider 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 us to use our 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.

We 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.

We are 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.

We 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 we do not consider it appropriate to comment on the quantum of a director's pay, we believe 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.

We 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.

We will normally vote against:

- Contracts whose terms lie outside any of the above.

<u>Long- term incentive plans</u>

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

We 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.

We would ask our 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.

<u>Political donations</u>

We normally consider any political donations to be a mis-use of shareholders' funds and will ***vote against resolutions proposing them***.

<u>Implementation</u>

We intend our voting policy to be implemented across the FTSE All Share Index. Our research on voting matters is supplemented by Manifest, and we will ask our 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 our fund managers.

We ask our Fund managers to keep a record of all votes recorded, and that the content of the resolutions and directions of the votes cast are reported to us 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 we can influence corporate behaviour. Our 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

We believe 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.

ANNEX 1

2012/13 STRATEGIC BENCHMARK

	Benchmark %	Index
UK Equities	13.0	FTSE All Share Index
Global Equities	42.0	MSCI AC World NDR
UK Government Bonds	3.0	FTSE A British Government over 15 Year
Corporate Bonds	10.0	BAML Over 10 Years Corporate Bond Index
Index Linked	2.0	FTSE A British Government over 5 Years Index
Fixed Interest	3.0	20 Year Inflation Swap Index
Overseas Government Bonds	2.0	Citigroup World Government Bond (Ex UK)
Pooled Multi Asset	15.0	3 Month LIBOR
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%).

Asset Return Assumptions

The actuary used the following projected annualised real returns for the next 10 years when carrying out the asset liability review in August 2010.

	Asset return
UK Equities	7.0%
Overseas Equities	6.8%
UK Government Bonds	3.9%
Corporate Bonds	4.6%
Index Linked	3.5%
Property	4.9%

ANNEX 2

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 - Our overall investment goal and aligned investment objectives are set out in our Investment Strategy (part of the Statement of Investment Principles) and reflected in our 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 us adopting a scheme specific benchmark that is related to our 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 us to meet our 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 - We employ an investment performance measurement service and monitor managers performance quarterly, with fund managers attending officers meetings and Committee meetings alternately. The officers' meetings with the fund managers are reported to the trustees at the subsequent quarterly meeting. 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.

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.

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.

APPENDIX 2

LONDON BOROUGH OF SUTTON PENSION FUND

FUNDING STRATEGY STATEMENT

1. Background

1.1 Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Sutton ("the Fund"), which is administered by the London Borough of Sutton, ("Sutton Council") as the Administering Authority.

It has been prepared by Sutton Council in collaboration with the Fund's actuary, Hymans Robertson, and after consultation with the Fund's employers and investment adviser. This statement was effective from 31 March 2008.

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), together with two scheduled bodies (Sutton Housing Partnership and Carshalton College) and 5 small admitted bodies. Sutton Council employees represent over 90% of active membership.

1.2 Regulatory Framework

Pension Scheme members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- The Local Government Pension Scheme (Administration) Regulations 2008 ("The Regulations") (regulations 35 and 36 are particularly relevant);
- The Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- Actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- The Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

2. Statements of Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM), which is now the Department for Communities and Local Government (DCLG), stated that the purpose of the FSS is:

- *"To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;*
- *To support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*
- *To take a prudent longer-term view of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting. This statement sets out how Sutton Council has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- Receives contributions, transfer payments and investment income; and
- Pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex 2.

2.3 Aims of the Funding Policy

The primary aims of the Fund's funding policy are to:

- Ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and scheduled and admitted bodies;
- Manage employers' liabilities effectively; and
- Maximise the returns from investments within reasonable risk parameters.

3. Solvency Issues and Target Funding Levels

3.1 Solvency and target Funding levels

The main issues affecting the solvency of the Fund are:

- The cost of future liabilities and the need to meet them as they fall due;
- The investment returns on the Funds' assets;
- The affordability and volatility of employer contribution rates; and
- The pace at which deficits are recovered (or surpluses distributed).

The Funding Strategy draws these issues together to seek to achieve full solvency and a funding level close to 100% over a reasonable period of time and within the prudential framework in which the Fund operates. These matters are considered in more detail below.

3.2 Ongoing Funding Basis

The Fund's actuary prepares full valuations of the Fund every three years (and interim valuations annually) using financial and demographic assumptions agreed with Sutton Council. The 'solvency' or funding level of the Fund is defined as the ratio of the market value of assets to the value placed on accrued benefits on the actuary's 'ongoing funding basis'.

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Allowance has been made for improvements in line with the PMA/PFA92 series projections up to calendar year 2017 for pensioners and 2033 for non-pensioners, with age ratings applied to fit past LGPS experience. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the fund's assets in excess of gilts. There is, however, no guarantee that the assets will out-perform gilts or even match the return on gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions it is normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2010 valuation, it was assumed that the Fund's

investments will deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.
The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.3 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- "F*uture service rate*" - the estimated cost of future benefits being accrued; and
- "P*ast service adjustment" -* an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

At each triennial valuation the Fund's actuary calculates a *Common Contribution Rate*[1], for all employers which combines both elements and is expressed as a percentage of pay. The Common Service Rate is then adjusted for the circumstances of each employer with separate future service rates calculated for each employer together with individual past service adjustments according to employer-specific funding levels, spreading periods and phasing periods.

Annex 1 contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. A different approach is being taken in those years for calculating the past service adjustment. Due to declining staff numbers if the Council continued to base employers' contributions on a percentage rate, the required level of contributions would not be sufficient to recover past service deficits. Going forward past service adjustments will be funded by a separate cash payment equivalent to maintaining the current equivalent employers' contribution rate of 21.5%. The cash payment will then be increased by earnings growth for the first three years from 1 April 2011 up to the next actuarial review when all rates will be revised to take account of agreed government changes to pensions from the Hutton Review.

The capitalised costs of any non ill-health early retirements must be fully reimbursed by the employer concerned in addition to the contributions described above

3.4 Future Service Rate

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The calculation uses the *Projected Unit Method* when assessing the Common Contribution Rate and the future service rate for open employers (i.e. those still admitting new entrants). This method is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

[1] See Regulation 36(5)

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

Future service rates include an allowance for expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.
The *Attained Age Method* is used when assessing the future service rate for closed admission bodies (i.e. those no longer admitting new entrants).

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers, unless the circumstances dictate otherwise

Sutton Council does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The asset apportionment is capable of verification but not to audit standard.

Sutton Council recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.6 Deficit Recovery Periods

To smooth the impact of short term investment performance between valuations and to stabilise changes in contribution rates over a longer period Sutton Council has agreed to target recovery of any deficit over a period not exceeding 22 years.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 valuation). Sutton Council 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 to improve the stability of contributions.

Other employers may be subject to different deficit recovery periods.

3.7 Phasing in of Contribution Rises

Best Value Admission Bodies are not eligible for phasing in of contribution rises.

Other employers may opt to phase in changes in contribution rates arising from a valuation over a 3 year period.

4. Links to Investment Strategy

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles. Funding and investment strategy are inextricably linked. Investment strategy is set by Sutton Council after taking investment advice and seeks to balance investment returns against risk and volatility taking into account the funding position and maturity profile of the Fund.

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 2010, the benchmark proportion held in equities and property were 80% of the total Fund assets.

The investment strategy of lowest risk would be 100% investment in index-linked government bonds but this is most unlikely to be the most cost-effective in the long-term.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy. The same investment strategy is currently followed for all employers.

4.2 Consistency with Funding Basis

The funding basis adopts an asset outperformance assumption of 1.6% per annum over and above the redemption yield on index-linked gilts. Both the Fund's Actuary and its investment adviser consider that the funding basis does conform to the requirement to take a "prudent longer-term" approach to funding.
The Administering Authority is aware that in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of the outperformance 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.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, Sutton Council considered the balance between risk and reward by reviewing the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

5. Risk Management

The policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Pension Committee monitors the risks to the Fund, and takes appropriate action to limit the impact by applying best practice mitigations. The Pension Fund risk register (Annex 3) summarises the key financial, demographic, regulatory and governance risks along with the mitigations.

6. Consultation and Publication

Sutton Council has prepared the FSS in collaboration with the Fund's actuary and consulted the employers in the Fund on its contents.

The document will be published on Sutton Council's Website and a hard copy made available to interested parties.

7. Monitoring and Review

7.1 Inter-valuation Monitoring of Funding Position

Sutton Council monitors investment performance relative to the growth in the liabilities by means of annual interim valuations.

7.2 Reviews of FSS

The FSS is reviewed in detail every three years as part of the triennial valuation process. The next full review will be conducted alongside the 2013 valuation. More frequently, Annex 1 is updated to reflect any changes to employers.
The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Lisa Doswell in the first instance at lisa.doswell@sutton.gov.uk or on 020 8770 5354.

ANNEX 1

Employers' Contributions following the 2010 Valuation

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are set out below.

Employer	Contribution at 31/3/2011 % of Payroll	Minimum Contribution for year ending 31/3/2012 % of Payroll	31/3/2013 % of Payroll	31/3/2014 % of Payroll
London Borough of Sutton	21.5	17.4 plus 4.1 / £3.170m	17.4 plus 4.1 / £3.202m	17.4 plus 4.1 / £3.371m
Bandon Hill Cemetery	28.3	30.1	31.9	33.7
Beddington & Wallington CAB	26.5	31.1	33.7	37.3
Rosehill CAB	26.5	31.1	33.7	37.3
Sutton CAB	26.5	31.1	33.7	37.3
Carshalton College	17.2	16.9 plus £214k	16.9 plus £216k	16.9 plus £228k
Sutton Housing Partnership	15.5	18.0 plus £88k	18.0 plus £89k	18.0 plus £94k
Housing 21	21.8	22.4	22.4	22.4
Housing 21 Dementia Voice	20.4	19.0	19.0	19.0
Thames Reach Housing Association	21.6	16.7	16.7	16.7

Further breakdown of Sutton Council Contribution Rate:

Employer Contribution Rate	% of Payroll
Future Service Funding Rate	17.4
Past Service Adjustment – 22 year spread	Greater of 4.1 or lump sum contributions in table above
Total Common Contribution Rate	21.5

For Sutton the future contribution rates are 17.4% plus the greater of 4.1% and £3.170m in 2011/12, 17.4% plus the greater of 4.1% and £3.202m in 2012/13 and £17.4% plus the greater of 4.1% and £3.371m in 2013/14.

ANNEX 2

Responsibilities of Key Parties

The Administering Authority should:

- Collect employer and employee contributions;
- Invest surplus monies in accordance with the regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Manage the valuation process in consultation with the fund's actuary;
- Prepare and maintain a FSS and a SIP, both after proper consultation with interested parties; and
- Monitor all aspects of the fund's performance and funding and amend FSS/SIP.

The Individual Employer should:

- Deduct contributions from employees' pay correctly;
- Pay all contributions, including their own as determined by the actuary, promptly by the due date;
- Exercise discretions within the regulatory framework;
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- Notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

ANNEX 3

RISK REGISTER

1. Financial Risks

Risk	**Summary of Control Mechanisms**
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term (Medium Probability, High Impact)	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided on an annual basis against returns*
Inappropriate long-term investment strategy (Low Probability, High Impact)	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities (Low Probability, Medium Impact)	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark (Medium Probability, Medium Impact)	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.*
Pay and price inflation significantly more than anticipated (Low Probability, Medium Impact)	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies (High Probability, High Impact)	*Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.*

2. Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer. (Medium Probability, Medium Impact)	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Sutton encourages any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.* *From December 2018 the State Pension age for both men and women will start to increase to reach 66 by October 2020.*
Deteriorating patterns of early retirements (Low Probability, Low Impact)	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

3. Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. potential new entrants to scheme. (High Probability, High Impact)	*The Administering Authority remains alert to the potential creation of additional liabilities and administrative difficulties for employers and itself although LGPS 2014 is not seen as a risk* *It considers all consultation papers issued by CLG and comments where appropriate.*

Changes to national pension requirements and/or Inland Revenue rules (High Probability, Medium Impact)	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by government and comments where appropriate through the Local Government Association.*

4. Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements). (Low Probability, Low Impact)	*Sutton receives monthly notification of changes* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations*
Administering Authority not advised of an employer closing to new entrants. (Low Probability, Low Impact)	
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt. (Low Probability, Low Impact)	*Sutton maintains effective liaison with the small number of admitted bodies in pension matters.*

APPENDIX 3

London Borough of Sutton Pension Fund: Governance Compliance Statement

1. Background

Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008, and its predecessor, Regulation 73A of The Local Government Pension Scheme Regulations 1997 (as amended), requires administering authorities to measure their governance arrangements against standards set out in guidance published by the Department for Communities and Local Government. The standards are not mandatory, but where compliance does not meet the published standard, there is a requirement under Regulation 31(3) (c) to give, in the governance compliance statement, the reasons for not complying.

2. Structure

DCLG principle: 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 - During 2012/13 this was discharged through a formal decision-making committee known as the Pension Committee.

DCLG principle: That 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.

DCLG principle: That where a secondary committee or panel has been established the structure ensures effective communication across both levels.

Not applicable as there is no secondary committee or panel.

DCLG principle: That 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 no secondary committee or panel.

3. Committee Membership and Representation

DCLG principle: That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

i) employing authorities;
ii) scheme members;
iii) independent professional observers; and
iv) expert advisors.

Compliant - All key stakeholders are represented on the Pension Committee.

DCLG principle: That 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.

DCLG principle: That 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.

DCLG principle: That 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

DCLG principle: '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

DCLG principle: That 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.

DCLG principle: 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 5 above.

6. Meetings (frequency/ quorum)

DCLG principle: That 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.

DCLG principle: That 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 no secondary committee or panel.

DCLG principle: That 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

DCLG principle: That 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

DCLG principle: That 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

DCLG principle: That 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 - Details are published on the Council's web site and include the frequency of meetings and consultation, monitoring and review of the Funding Strategy and Statement of Investment Principles.

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.

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

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

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

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