



**London Borough Of Merton
Pension Fund**

Annual Report

2021-22

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The Chairperson Statement



I am pleased to introduce this year's Annual Report of the London Borough of Merton Pension Fund. This is my second year of opportunity to meet you all via the Pension Fund Annual Report.

Once again, the financial year was a demanding year for the Pension Fund. Until January 2022 the Fund was performing well above the benchmark. However, with the start of the Russia/Ukraine war performance was adversely impacted. All investments were affected but especially the listed investments.

As part of equity rebalancing in Q1 2021, Merton Pension Fund locked in gains of £135m. This greatly helped to mitigate the drop in value caused by the war.

Highlights of the year

As the nation came back to normal after COVID 19, face to face Council services started to resume and this was also the case with Committee meetings.

- A new manager was appointed to manage our 5% social impact investment. As this was the first allocation directly and exclusive to social impact investment, the Fund carried out a full manager search and were pleased to invest in a property fund which provides specialised living for vulnerable people.
- In the year, the Fund was able to further reduce its carbon footprint on scope 1 and 2. As this is the 5th consecutive year of measuring, more data was available which has allowed us to expand the scope to cover 72% of the Fund and including scope 3 emissions. This has been achieved by continually moving to sustainable investment and where possible reducing our allocation

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from high carbon emitting investments i.e. as part of the equity rebalancing carried out in Q1 2022.

- Based on the current investment strategy, further investment was made with the current Infrastructure and private credit managers to meet the full strategic allocation.
- Based on the recommendation presented to the March 2022 Committee meeting, it was agreed to move in June 2022 from our LCIV Global Alpha Growth Fund to the Paris Aligned Global Alpha Fund. This was another step towards sustainable investments.
- Regarding administration – Merton has moved 100% to I-Connect. This allows employers to update contribution detail directly enabling real time member records.
- Roll out of the Member Self-Services – this gave all the Fund members the online access to their pension records and the facility to update their personal details. Also, members can carry out their own pension projection and plan their retirement.
- Both I-Connect and Member Self Services increased efficiency and reduced delays.
- Began the Triennial Valuation process. March 2022 was the formal date for the Funds' next Triennial valuation. The Actuary and the Fund officers started planning in January 2022 and the process formally began on the 1 April 2022. The initial Fund level results show the Fund is in an increased surplus position from March 2019.
- Employers' open day was held in December 2022 to present individual employers Triennial valuation results.

Coming up

- Following the outcome of the Triennial valuation, the Fund Actuary and the Administration Authority will discuss and agree the contribution strategy for the next three years.

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- The investment strategy review is currently underway, and the focus will be on further reducing our carbon emission and increasing our impact investment while receiving the required financial returns.
- Continue to deliver the required training for the newly elected Committee. Training will be online and in person based on specific needs.

Once again, I am proud to say the pension fund and the team continued to deliver services to its members during 2021/22 despite the continued impact of COVID 19.

The 2021/22 year was an extraordinary year for the Merton Pension Fund as was the case for other pension funds. As at March 2022 the Fund value was £927m showing a marginal increase from March 2021. The fund value dropped in Q1 2022 as a result of Russian /Ukraine.

The pandemic changed the way we administrate the Fund's investments, administration, and governance arrangements. By moving to virtual meetings, the Pension Committee and the Pension Board were able to continue to have quarterly investment meetings. This also helped the Fund officers to continue to have regular meetings with our investment managers and the London Collective Investment Vehicle (LCIV) Pool together with other stakeholders as usual.

The Fund is committed to its ESG strategy and ensures ESG criteria have a significant weight when making investment decisions. The new Investment Strategy Statement details this and includes our investment beliefs. We as a Fund continue to find opportunity to reach the net zero target and, in the meantime, give equal priority to the social and governance factors.

I take this opportunity to thank my fellow Committee members, officers and the advisors for their hard work and support.

Cllr. Laxmi Attawar

Chair- Merton Pension Committee

Merton Pension Fund Introduction

The Merton Pension Fund is a Local Government Pension Scheme (LGPS) that provides defined benefit pensions to its members.

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

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

The Local Government Pension Scheme (LGPS) provides defined benefit pensions determined by national regulations. The benefits are mandatory, and not subject to local amendment or Pension Fund performance and they are adjusted for inflation. The liability to pay these benefits, both currently and in future years is financed by employee and employer contributions and income from the investments of the Pension Fund.

The scheme must be fully funded or have a plan to become so. Hence, employer contributions are adjusted based on a triennial actuarial valuation, to ensure that 100% of existing and prospective pension liabilities are met through the various funding sources over a reasonable period. The March 2022 valuation results are yet to be signed but the initial results shows that the Fund is continuing to be in surplus and the surplus position has increased since 2019 Triennial valuation.

Employee contribution rates are set by statutory regulations based on employee's pensionable pay. These rates are reviewed every April. The employer contribution is determined, triennially, by an actuarial review that considers the funds current funding level and the expected future investment return. Thus, the amount and performance of Pension Fund investment is significant to the level of the employer contribution and supports the need for effective management of the Fund.

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The London Borough of Merton is the administrating body and the main employer of the Merton Pension Fund, owning 91% of the Fund.

The Fund also has other employers who provide services to the Council and/or to the Borough. There are 29 employers in total and out of which only 16 of them have contributing active members as at 31 March 2022. The employers are made up of academies, housing associations and community admission bodies. The Full list of the participating employers is shown on page 40.

In March 2022, the Fund had 15,025 total members. Being 4,546 active members; 4,214 pensioners and 6,265 deferred.

As at 31 March 2022 the Fund net asset value was £927m. This showed an increase of £27m from the previous year. The Fund's Investments are managed by external Fund managers, who have been appointed through a rigorous selection process, and the LCIV Pool. Each quarter the Fund managers' performance is measured against the set benchmark to which they are held accountable. In 2021/22 the Fund delivered an annual return of 4.5%. The Fund had a total income of £45m and total expenditure of £51m.

The pension administration is managed by the Wandsworth Pensions Shared Services.

Statement of Responsibilities of the Pension Fund

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Pension Fund and to ensure that one of its officers has the responsibility for the administration of those affairs. For the Council, that officer is the Director of Corporate Services.
- Manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets.

The Pension Fund Advisory Panel has examined the Pension Fund accounts and annual report and authorised the Chairman of the General Purpose Committee to approve them on its behalf.

The Responsibilities of the Director of Corporate Services.

The Director of Corporate Services is responsible for the preparation of the Pension Fund's accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code of Practice').

In preparing this Statement of Accounts, the Director of Corporate Services has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice.

The Director of Corporate Services has also:

- Kept proper accounting records, which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other Irregularities.



Roger Kershaw

Executive Director of Finance and Digital

06 February 2023

Management and Advisors of the Fund

Below is a list of the Pension Fund internal management contact, external managers and advisers.

1. Scheme Administrator (Section 151 Officer Local Government Act)

Roger Kershaw
London Borough of Merton,
Merton Civic Centre,
Morden, Surrey, SM4 5DX

2. Investment Managers

BlackRock	UBS Asset Management
Quinbrook Infrastructure Partners	Macquarie
Churchill	JP Morgan Asset Management
Permira	London Collective Investment Vehicle
Allspring Global Investments	

3. Custodians

Northern Trust
BNP Paribas.

4. AVC Providers

Prudential PLC

5. Investment Adviser

Hymans Robertson

6. Fund Actuary

Barnett Waddingham LLP

7. Legal Advisers

London Borough of Merton –Shared Legal Services

8. Bankers

Lloyds Bank Plc

9. Auditor

Ernst & Young LLP

10. Scheme Administration

Pensions Shared Service, London Borough of Wandsworth

11. Performance Monitoring and Analysis.

- Hymans Robertson
- Pensions & Investment Research Consultants Limited (PIRC Limited)

Risk Management

The risks to the sustainability and affordability of financing the Pension Scheme in its present form are apparent through actuarial and other advice. Triennial and interim actuarial reviews and the annual IAS26 report by the Fund's actuary, focus the governance process on the risks inherent in the mechanism of the scheme's financing; (i.e. the relationship between employee and employer contributions and the value and income of the Pension Fund.) Data obtained regarding risks allows those concerned with the Fund's governance and management to consider and take advice on how to mitigate them.

Risk in the Pension Fund can be broadly classified into two types:

1. Fund management risk considers the risk associated with investments, strategic risk, and investment related regulations.
2. Administration risk includes the risk associated with Regulations and internal systems and processes.

In managing the Pension Fund, it is not possible to avoid risk, so the main focus is identifying, monitoring, controlling, managing, mitigating, or transferring risk.

Assurance is sought over third-party operations through the review of AAF01/06 and SSAE16 reports of fund managers and custodians on an annual basis by Members of the Panel.

Third party risks such as late payment of contributions are managed through monthly monitoring of payment schedules and reconciliation of payments received.

Investment risk is managed through regular review of performance and against the investment strategy agreed by the Panel. The Fund also obtains on a need-by-need basis advice from professional advisers including Hymans Robertson LLP, Barnet Waddingham LLP, and PIRC. The key risk areas and the means of mitigating them are as follows:

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Type of Risk	Mitigation Details
<p>Financial Risk The risk that investment strategy fails to produce the investment return assumed in funding strategy and actuarial assessment.</p>	<p>Investment asset allocation has been guided by an asset/liability modelling exercise, and consideration of the Authority's tolerance of volatility in the employer contribution. Monitoring of the Fund's investment allows any significant drift of allocations away from their target level and corrected where necessary. The Fund policy to diversify investment across a range of asset classes, sectors, markets, and investment managers, and to avoid excessive concentration of investment in any one stock or area.</p>
<p>Demographic Risk The risk that a continuing improvement in mortality rates increases the Fund's liabilities.</p>	<p>The general increase in life expectancy of 1 year, for all members of the Fund, will reduce the funding level by between 2% to 3%. Current actuarial assumptions go some way to accommodating this and the assumptions are updated for each actuarial valuation.</p>
<p>Regulatory Risk The risk of changes in the Regulations governing the Scheme or its tax status.</p>	<p>The Administering Authority monitors and participates in the consultation process for changes in Regulations and seeks advice from the Fund actuary, LGA, London CIV, and CIPFA on the financial implications of any proposed changes.</p>
<p>Governance Risk The risk of structural changes in an individual employer's membership or closure to new membership, or their financial stability, or their ceasing to exist without having fully funded their pension liabilities.</p>	<p>These risks are addressed by the Administering Authority maintaining adequate contact with the individual employers participating in the Fund and ensuring that it has current information on their status. Scheduled and Admitted bodies considered a significant risk might be asked to provide an indemnity or performance bond. Costs incurred where contributions due are paid significantly later than expected can be recovered from the relevant employer.</p>

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Asset Security Risk The risk of loss of investment assets or cash by fraud or negligence	The processing of investments is split between investment managers, who make decisions on the purchase and sale of investments, and separate, independent custodians who settle and pay investment transactions and receive proceeds.
	The Authority obtains AAF01/06 and SSAE16 audit reports (an in-depth audit examination of an organisation's internal control) on its investment managers to ensure that they are handling the Authority's investment affairs in a proper and secure manner; it also monitors the creditworthiness of the custodians that hold assets and cash.

Risk Register

The risk register is a tool used to effectively identify, prioritise, manage, and monitor risks associated with the Merton Pension Fund.

It assists the Fund by:

- identifying managed and unmanaged risks
- providing a systematic approach for managing risks
- implementing effective and efficient control
- identifying responsibilities
- identifying risks at the planning stage and monitoring the risks
- helping the Fund to achieve its objectives

The Pension Fund Risks are identified and managed as part of the Corporate Risk Register. The risk listed on the registered are reviewed and updated every quarter.

Financial Performance

During the year, the Fund received £28.6m in contributions and transfers in and paid out £48.5m in benefits and payments to leavers. This showed a net withdrawal of £19.9m from dealing with members. This unusual variance was mostly due to a bulk transfer value out of £18.6m for the South London Waste Partnership staff (SLWP) that transferred from the London Borough of Merton Pension Fund to the London Borough of Croydon Pension Fund.

The fund accounted for £16.8m investment income in year.

Analytical Review

Fund Account	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Contributions Income					
Employers	(17,026)	(17,348)	(18,364)	(17,127)	(18,130)
Members	(5,719)	(6,105)	(6,546)	(7,100)	(7,251)
Transfers In	(6,748)	(18,933)	(12,828)	(2,318)	(3,264)
Total	(29,493)	(42,386)	(37,738)	(26,545)	(28,645)
Benefits paid					
Pensions	20,516	21,548	22,534	23,286	23,818
Other leaver benefits	4,250	4,428	4,174	3,745	4,088
Transfers out	2,675	5,082	5,461	4,679	20,590
Total	27,441	31,058	32,169	31,710	48,496
Net Dealings with Members	(2,052)	(11,328)	(5,569)	5,165	19,851
Management Expenses	1,869	1,133	1,701	2,141	2,995
Returns on Investments	(12,457)	(8,014)	(13,011)	(9,361)	(16,752)
Change in Market Value	4	(39,893)	48,680	(208,776)	(32,803)
Net (Increase)/Decrease in Fund	(12,636)	(58,102)	31,801	(210,831)	(26,709)

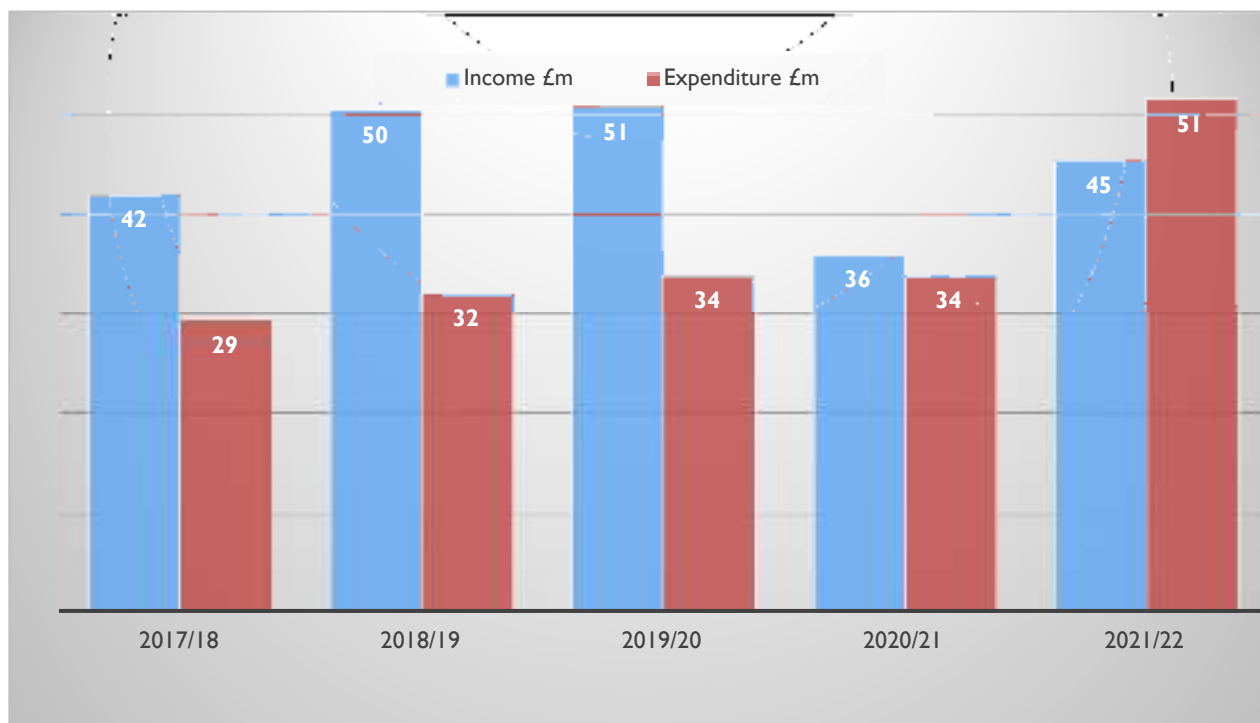
Contribution's income has fluctuated over the past 5yrs. This is due to the variability of both bulk and individual transfers into the Fund. Over the same period, individual

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member contributions have increased from £5.7m to £7.3m, being an increase of 27%. This is due to a natural increase and auto enrolment. The employers' contributions were reviewed and agreed as a part of the Fund's triennial valuation.

The table below summaries the Fund's income and expenditure for the past five years to 2021/22. The significant rise in expenditure is due to the Bulk transfer worth £18.6m in the year.

Pension Scheme Income and Expenditure for the past 5 years (including investment income)



Code of Transparency

The LGPS Scheme Advisory Board has developed the Code of Transparency to assist LGPS funds in obtaining data they will require to report costs incurred by their investment funds.

The Fund uses pooled investment vehicles for which it does not receive separate fee invoices but rather the fees are taken directly from the asset value of the fund, so

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the code has helped to make identification of these fees easier. All fund managers provide a full breakdown of fees which are borne by the Fund.

Investment Policy and Performance

Introduction to Investment Policy

The overall responsibility for the Pension Fund and its investment rests with the Council of the London Borough of Merton in its role as administering authority, which exercises this responsibility via the Pension Committee, assisted by Merton Pension Board.

The investment objective is to achieve a fund value and investment performance that allows the actuarial assessment to determine a tolerably stable, minimised, employers' contribution.

Regulations require that the administering authority shall obtain and give regard to proper advice. It must also consider the appropriateness of investments and the need for diversification and management of risk.

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

Local Government Pension Scheme Regulations 2016 (The Regulations 7 (1)) requires administering authorities to formulate an investment strategy statement (ISS) Accordingly, administering authorities are required to prepare and maintain an Investment Strategy Statement (ISS) advising how their investment strategy has been determined and implemented in accordance with the Regulation 7 guidance including:

- A requirement to invest money in a wide variety of investments,
- The authority's assessment of the suitability of investments and types of investments,
- The authority's approach to risk, including the ways in which risks are to be measured and managed,
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services.

- The authority’s policy on how social, environmental, or corporate governance considerations are considered in the selection, non-selection, retention, and realisation of investments; and,
- The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

Performance summary – Period ending 31 March 2022

Mandate	Valuation (£m) Mar-21	Valuation (£m) Mar-22	Allocation Mar-22 (%)	Allocation Benchmark	Relative
Global Equities	450	332	36.0%	40.0%	-4.0%
Emerging Market Equities	100	86	9.3%	10.0%	-0.7%
Diversified Growth	73	176	19.0%	10.0%	9.0%
Property	24	29	3.1%	5.0%	-1.9%
Infrastructure	38	82	8.8%	7.5%	1.3%
Private Credit	31	40	4.4%	7.5%	-3.1%
Risk Management Framework	105	101	11.0%	10.0%	1.0%
Multi Asset Credit	75	77	8.3%	10.0%	-1.7%
Cash	1	1	0.1%	0.0%	0.1%
Total Fund	897	924	100.0%	100.0%	

Environmentally and Socially Responsible Investment and Governance

The Merton Pension Fund is committed to being a long-term responsible investor. The Fund complies with and follows the principles of both the UK Stewardship Code and to the UN-backed Principles of Responsible Investment.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments regarding their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material Environmental, Social and Governance (ESG) factors within its investment analysis and decision making.

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The Fund policy regarding ESG considerations is set out in the Responsible Investment Policy and addressed within the Investment Strategy Statement, available via the following link:

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Subscriptions to Supporting Organisations

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS Funds that campaign on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. The Fund uses this forum to put its views forward on ESG.

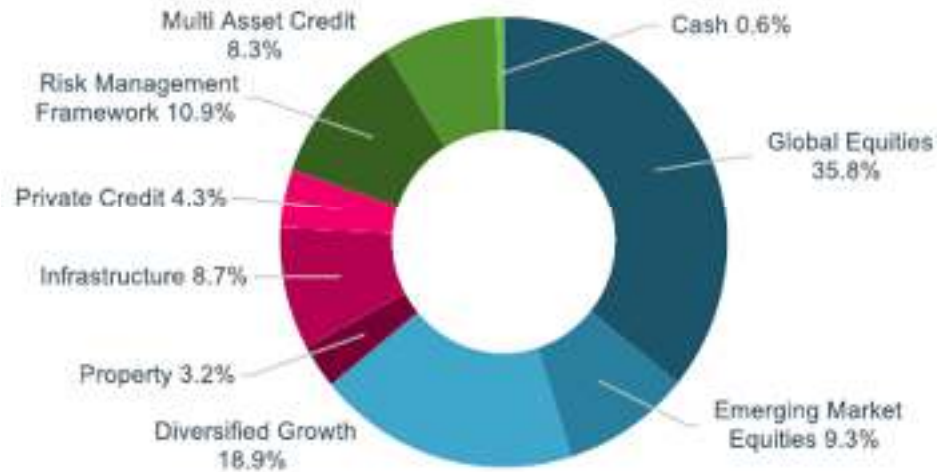
Fund Valuation

As at 31 March 2022, the value of the Fund was £927m an increase of £27m on the value of the Fund from the previous year.

The change in the Fund value over the period is a combination of the net money flows into or out of the Fund, Investment Income received and any gain or loss on the capital value of the investments. The main asset classes and their value are shown below.

Net Asset Value	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Fixed Interest Securities	152	88	70	72	98
Equities	244	451	395	550	419
Pooled Investment Vehicles	236	136	123	148	252
Property Investments	23	24	24	24	29
Private Debt	0	3	16	31	40
Infrastructure	0	6	38	37	82
Derivatives	0	0	(7)	0	(5)
Other	7	15	30	37	12
Total Investment Assets	663	721	689	900	927

Asset class exposure 2021–22



Fund Managers Performance

The Fund’s investments are managed by external fund managers in eight different asset classes. The Fund now has 61% of its strategic allocation invested via the LCIV and the rest of the investment are invested outside of the LCIV in different mandates. The Fund is invested in active and passive mandates. In the case of active management, the manager will invest and realise investments based on their skill and knowledge to outperform the market. By contrast, passive managers will buy and hold investments to replicate a market index.

The managers have full discretion and operate within agreed deadlines specified in the Investment Management Agreement (IMA) and in accordance with the Fund’s Investment Strategy Statement to make investment decisions without referral to the Authority, provided that the activity and action are in compliance with the IMA.

The Council holds fund managers accountable for decisions on asset allocation within the benchmark under which they operate. Managers are challenged robustly

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and formally about asset allocation proposals. Managers' performance is reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and they are called to a committee meeting if there are issues that need to be addressed. Officers meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangements and performance.

In an effort to ensure that a simple tracking of the relevant benchmark index and peer groups is not happening, Fund managers will provide a rationale for asset allocation decisions based upon informed research. The Fund's asset allocation strategy can be found in the Investment Strategy Statement. The asset allocation of the Pension Fund at the start and end of the financial year is set out above (Page 19).

In addition to the importance of financial performance the Fund will also look at individual portfolios and the respective fund managers approach to ESG factors. This is now an embedded process and carried out at the initial point of investment.

LCIV have mechanisms in place to report quarterly the ESG score/impact on the investments they manage. The fund officers and performance consultants work with the fund managers to measure the ESG impact on the investments that are managed outside the LCIV pool.

On this basis the Fund will measure and report its investments carbon footprint whereby all new investments are selected following an analysis of their carbon emissions. The RAG system is used and only investments that return a 'Green' category will be chosen. Similarly with the existing portfolio steps are taken to reduce the carbon emission of investments in a structured way while maintaining the expected return from these investments.

Over the 12 months to 31 March 2022, total Fund assets returned 4.5% compared to the target of 8.2%. This equates to an under performance of 3.7%. The Fund's total market value increased £27m over the year, from £900m to £927m.

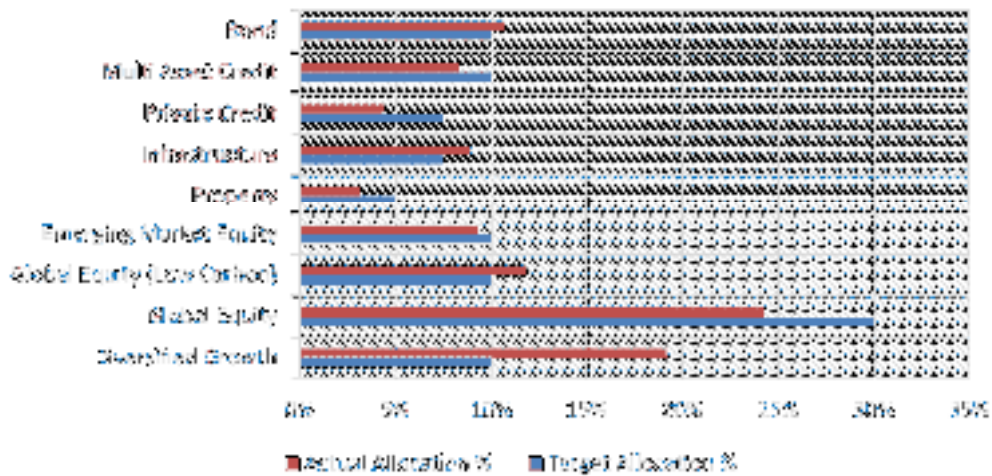
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PERFORMANCE SUMMARY 31 MARCH 2022

Asset Allocation

The Merton Pension Fund investment portfolio is a well-diversified portfolio. It is important to note that 61% of the fund's assets were transited on the LCIV pool. The Chart below shows the fund asset classes and the current allocation as at March 2022.

Target & Actual Allocation 2021/22



The actual asset allocation may fluctuate from the target allocations due to the relative movement of investment values in the markets, or funds to be redeemed and re-allocated to the Private market investments. It normally takes 3 to 5 years to be fully allocated to the private market investments. Please find below the asset allocation by fund managers,

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Actual Asset Allocation by Manager

2020/21			2021/22	
£000	%		£000	%
		Investments managed by LCIV asset pool		
94,195	10.5%	Blackrock (LCIV)	109,322	11.8%
39,506	4.4%	JPM Emerging Markets (LCIV)	35,466	3.8%
145,056	16.2%	Baillie Gifford (LCIV)	165,341	17.9%
37,389	4.2%	Ruffer	89,863	9.7%
104,412	11.6%	RBC (LCIV)	91,257	9.9%
74,847	8.3%	MAC (LCIV)	76,663	8.3%
		Investments managed outside LCIV asset pool		
219,363	24.5%	UBS	123,798	13.4%
8,353	0.9%	Macquarie	15,820	1.7%
11,834	1.3%	Quinbrook	48,330	5.2%
17,799	2.0%	JPM Infrastructure	17,570	1.9%
16,353	1.8%	Churchill	17,689	1.9%
15,043	1.7%	Permira	22,670	2.5%
104,906	11.7%	Wells Fargo	101,300	11.0%
7,612	0.8%	Blackrock	8,973	1.0%
150	0.0%	LCIV	150	0.0%
896,818	100%	Total	924,212	100%

Pension Administration Report

The Council's pension benefits administrator is the Pension Shared Service (hosted by the London Borough of Wandsworth) this is a shared service partnership between five London Boroughs: Merton, Camden, Richmond, Wandsworth, and Waltham Forest.

The key responsibilities for the Pension Shared Service are to:

- administer the LGPS in respect of all scheme members (Active, Deferred and Pensioner members);
- communicate and engage with scheme members and employers on LGPS matters;
- provide Annual Benefit Statements;
- maintain and develop an effective web presence for the benefit of members and employers.

The Pensions Shared Service has shown resilience in the face of the of the challenges of the Covid-19 pandemic with administration continuing with new working arrangements. As the year progressed, we were able to move to an effective balance of home working along with greater numbers of staff returning to the office. Importantly, all administration functions are now operating normally. We continue to deliver efficiencies from automation within the service with more scheme members registering for our Member Self Service facility and we have rolled out a monthly data collection portal to all our scheme employers

Development of the Pensions Shared Service

i-Connect

The key to delivering efficiencies in our pensions administration is the full implementation of i-Connect which allows for the automation of transfer of member data from employers' payroll systems to the pensions administration system on a

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monthly basis, thus reducing the need for manual inputting; reducing the workload of end-of-year reconciliation and ensuring the maintenance of a stable and accurate membership database.

i-Connect brings many benefits for employers including maintaining data in line with statutory rules and a beneficial impact on employer pension contribution rates.

Accurate member records mean a better service for members.

We are pleased to report that all Merton Pension Fund scheme members now have their records updated monthly through i-Connect.

Member Self Service

The Pensions Shared Service is promoting its secure on-line portal which allows members, (active, deferred or pensioner) to view pension records and scheme documents.

The expectation is that this online portal will become the default method of Pensions Shared Service communication with members and improvement in customer service and information exchange is expected.

Member Self Service is the simple and secure way for scheme members to:

- view their pension records;
- make changes to their personal information such as address, email, and phone details, etc.
- make a death grant nomination;
- run calculations including retirement estimates;
- view documents such as their latest annual benefit statement;
- contact the Pensions Shared Service with any questions.

There has been a positive reaction from scheme members to the introduction of Member Self Service as 58% of active members in the Merton Pension Fund have registered for Member Self Service. Last year the percentage of registered active members was 40%.

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Please find below the performance statistics for 2021–22

Management Performance – Membership

5 Year Membership Data	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	% Change 18 to 22
Active Members	3,933	4,150	4,341	4,359	4,546	16%
Deferred Members	4,691	4,738	4,899	4,882	5,146	10%
Pensioner Members	3,849	3,926	4,017	4,087	4,214	9%
Frozen Refunds	803	854	1,061	1,067	1,119	39%

Although there has been an increase in active, members since 2018 both deferred and pensioner members continue to increase. Therefore, those drawing benefits or about to draw benefits are growing at a much faster rate than those contributing to the Fund.

Key Management Performance Indicators

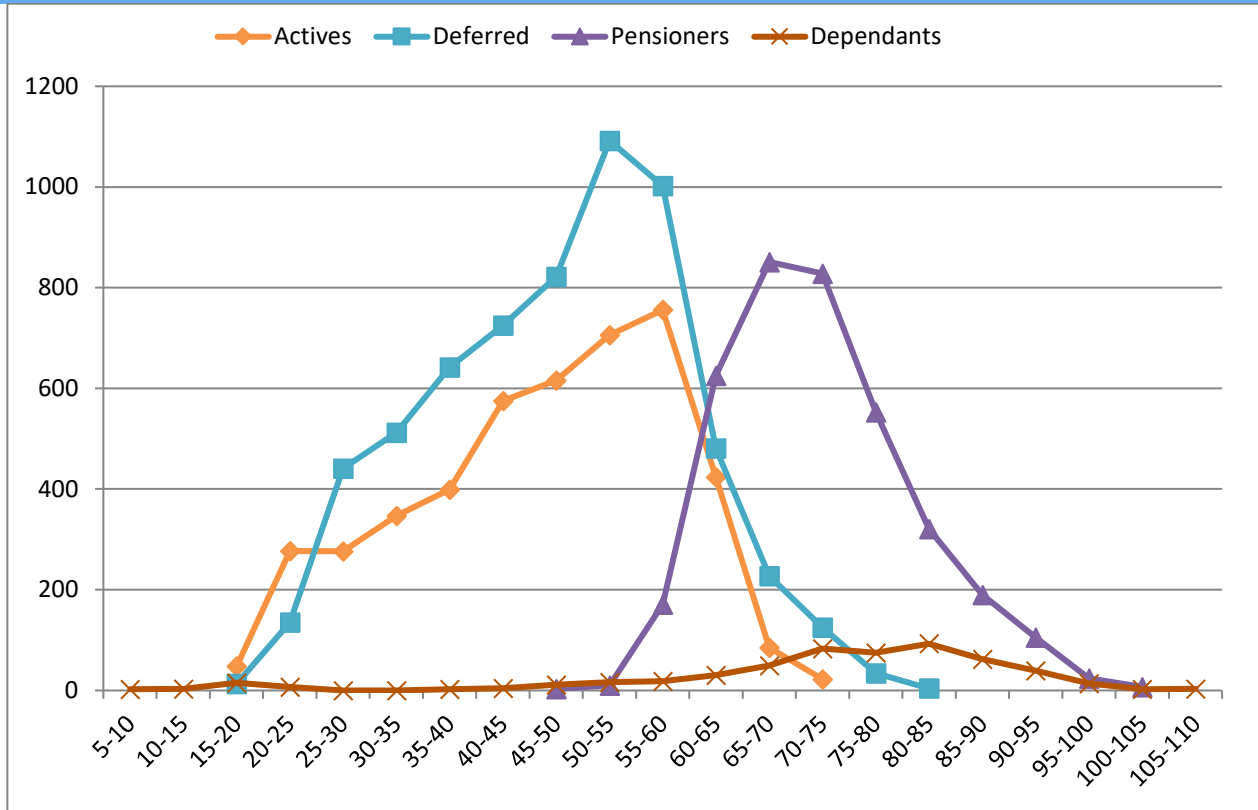
The extent of compliance with key performance indicators is as follows:

Performance indicator	Target Response Time	2017/18	2018/19	2019/20	2020/21	2021/22
		%	%	%	%	%
Payment of Retirement Allowance	15 Days	97.69	96.92	99.74	99.57	94.17
Benefit Estimates	15 Days	99.72	97.05	97.87	98.70	99.24
Death Cases – First Letter	5 Days	79.37	91.45	85.44	94.07	99.06
Onward Transfer Quotes	10 Days	80.77	85.27	90.86	97.50	97.50
Inward Transfer Quotes	10 Days	83.06	70.29	82.30	98.70	94.66

Age Profile /Longevity

The graph below provides an analysis in five-year bandings of active and deferred members, pensioners, widows, and dependents. The graph shows that the age profile of members is conventional with the number of normal pensioners peaking at around 70yrs.

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The average age of each category is indicated in the table below.

Category	Average age for category
Active Members	46 years 1 months
Deferred Members	47 years 8 months
Pensioners	72 years 1 months
Widows/Dependants	73 years 5 months

The Fund actuary Barnett Waddingham have reported in the IAS26 disclosures that as at 31st March 2022 the assumed life expectancy from age 65 was as follows:

Life expectancy from age 65 (years)		31 Mar 2022	31 Mar 2021
Retiring today	Males	21.6	21.5
	Females	24.2	24.1
Retiring in 20 years	Males	23.0	22.9
	Females	25.6	25.6

The actuary's analysis of LGPS pensioner longevity over the course of the last 20 years or so confirms that pensioners are living longer. Although life expectancy is assumed to be slightly less than in 2018.

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Pension Scheme Case Load

5 Year Case Type Analysis	March 2018	March 2019	March 2020	March 2021	March 2022
Active members	3933	4149	4341	4359	4546
Retirements	87	71	60	57	55
Deaths	75	91	99	117	80
Transfers Received	92	73	79	15	10
Deferred Benefits	238	279	632	319	221
Transfers Paid	57	99	100	106	128
New Starters	614	544	902	484	1309
Widows Benefits	18	36	29	32	26
Benefit Estimates	360	474	470	468	397
Redundancy Estimates	147	102	151	96	48
Transfer In Estimates	183	138	113	77	131
Transfer Out Estimates	104	129	186	152	200

Note: Estimates refer to cases where the member or the employer has requested a provisional calculation of the relevant benefit rather than the benefit event actually occurring.

Pension Scheme Case Load Trends

5 Year Analysis	March 2018	March 2019	March 2020	March 2021	March 2022
% Retirement of active members (includes actual redundancies)	2.21	1.71	1.38	1.31	1.21
% Redundancy estimates of active members (not including bulk transfer)	3.74	2.46	3.48	2.20	1.06
% Change in Deferred Benefits	-32.00	17.23	126.52	-92.72	-30.70
% Change in Redundancy Benefits (not including bulk transfers)	-19.23	-30.61	-0.84	1.31	-50.00

Asset Pools

In 2015 the Department of Housing Communities and Local Government (now Ministry of Housing Communities and Local Government) issued the LGPS: Investment Reform Criteria and Guidance which set out how the government expected the LGPS to establish a number of pools to deliver:

- Benefits of scale,
- Strong governance and decision making,
- Reduced costs and excellent value for money; and,
- Improved capacity to invest in infrastructure.

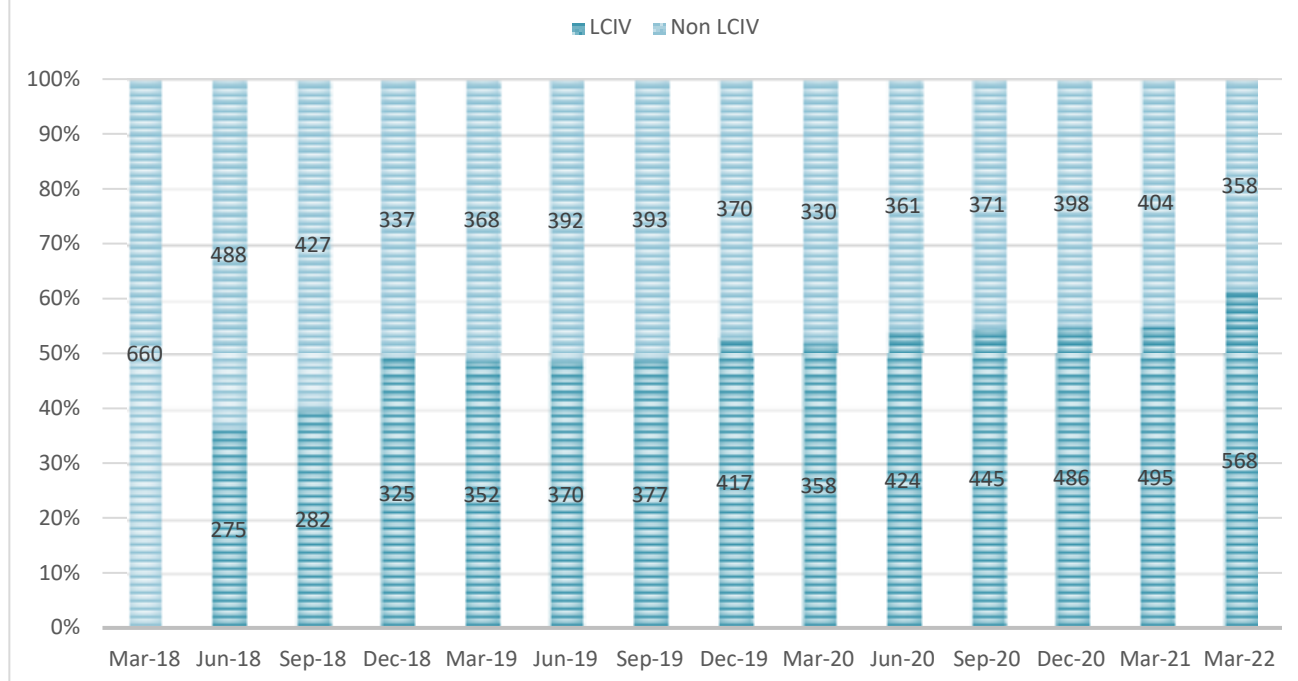
All administering authorities were invited to submit proposals for pooling of their investments by February 2016 including a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Merton made the decision at Council in February 2016 to join the London CIV (LCIV), to provide the Fund with a mechanism to pool investments with other London Boroughs.

Initial share capital investment of £150k was made on joining the pool in February 2016. Additionally, the Fund pays an annual service charge of £25k to support the work of the LCIV and a Development Funding Cost (DFC) of £85k as agreed in the LCIV AGM.

Establishment of the LCIV has significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with Merton Pension Fund.

The Fund had total LCIV holdings of £568m at 31 March 2022 accounting for 61% of total assets of the Pension Fund.

PROPORTION OF FUND ALLOCATED VIA LCIV (% & £M)



The below table shows the Merton’s investments in LCIV sub funds and their respective values as at 31 March 2022.

LCIV Valuation 31 March 2022

	31/03/2022
	£m
LCIV RBC Sustainable Equity Fund	91.26
LCIV Global Alpha Growth Fund	79.53
LCIV Emerging Markets	35.47
LCIV Global Absolute Return Fund	89.86
LCIV Diversified Growth Fund	85.81
LCIV MAC Fund	76.44
Blackrock World Low Carbon Equity Tracker Fund	109.32
Total	567.69

Actuary's Statement as at 31 March 2022

Introduction

The last full triennial valuation of the London Borough of Merton Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

2019 valuation results

The 2019 valuation certified a primary rate of 19.0% of pensionable pay. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

In addition, “secondary” contributions were required in order to target a fully funded position for the Fund’s by no later than 31 March 2032. Some employers in the fund were in surplus at the 2019 valuation and so were certified with negative secondary contributions. The total secondary contributions payable by all employers, present in the Fund as at 31 March 2019, over the three years to 31 March 2023 was estimated to be as follows:

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	-1.5%	-1.5%	-1.5%
Equivalent to total monetary amounts of	-£1,391,000	-£1,441,000	-£1,495,000

In practice, each employer was assessed individually in setting the minimum contributions due from them over the inter-valuation period, details of which can be found in the formal report on the actuarial valuation dated March 2020.

Contribution rates

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The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet;

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset value and funding level

The smoothed market value of the Fund's assets as at 31 March 2019 for valuation purposes was £718m which represented 103% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

Assumptions

The assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumption	31 March 2019
Discount rate	4.8% p.a.
Pension increases	2.6% p.a.
Salary increases	3.6% p.a.
Mortality	Members – S3PA Heavy tables with a multiplier of 110% for males and 105% for females and projected improvements in line with the 2018 CMI model allowing for an initial addition to improvements of 0.0% p.a., a long-term rate of improvement of 1.25% p.a. and a smoothing parameter of 7.5 Dependents – S3DA tables with a multiplier of 70% for males and 80% for females and projected improvements in line with that of members
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Updated position since the 2019 valuation

Assets

Returns over the year to 31 March 2022 have remained strong, resulting in an increase in asset values. As at 31 March 2022, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2022, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation. In particular, CPI inflation assumption has increased since the 2019 valuation.

Please note that, from 31 March 2021, we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities has also increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant. The Fund's mortality assumption is being reviewed as part of the 2022 valuation.

Overall position

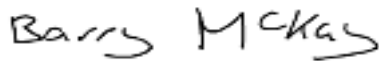
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On balance, we estimate that the funding position is likely to be slightly higher than the 2019 valuation position when compared on a consistent basis to 31 March 2019 (allowing for the update to the CPI inflation assumption).

The decrease in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular due to the market volatility following the Russia-Ukraine conflict. There are also the expected changes and ongoing uncertainty around future benefits, relating to the McCloud and Sargeant cases.

The next formal valuation is being carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.



Barry McKay FFA
Partner, Barnett Waddingham LLP

Merton Pension Fund Accounts
Fund Account

2020/21 £000	Fund Account	Notes	2021/22 £000
	Dealings with members, employers and others directly involved in the scheme		
(24,227)	Contributions	7	(25,381)
(2,318)	Transfers in	8	(3,264)
(26,545)	Total Income		(28,645)
26,933	Benefits	9	27,811
4,777	Payments to and on account of leavers	10	20,685
31,710	Total Expenditure		48,496
5,165	Net (additions)/withdrawals from dealings with members		19,851
2,141	Management expenses	11	2,995
7,306	Net (additions)/withdrawals including Fund management expenses		22,846
	Returns on investments		
(9,361)	Investment income	12	(16,752)
(208,776)	(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	(32,803)
(218,137)	Net returns on investments		(49,555)
(210,831)	Net (increase)/decrease in the net assets available for benefits during the year		(26,709)
(689,453)	Opening net assets of the scheme		(900,284)
(900,284)	Closing net assets of the scheme		(926,993)

Net Assets Statement

2020/21 £000		Notes	2021/22 £000
896,818	Investment assets	14	924,212
896,818	Total Investments		924,212
4,373	Current assets	20	9,142
(907)	Current liabilities	21	(6,361)
900,284	Net assets of the Fund available to Fund benefits at period end		926,993

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Notes to the Pension Fund Accounts

1. Description of Fund

Merton Pension Fund (the fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Merton.

a) General

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

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

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

The Fund is overseen by the Merton Pension Fund Advisory Panel, which is a committee of Merton Council.

b) Membership

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

Organisations participating in the Merton Pension Fund include the following:

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

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Membership details are set out below:

Admitted Bodies	Scheduled Bodies
<ul style="list-style-type: none"> Greenwich Leisure Clarion Housing CATCH 22 	<ul style="list-style-type: none"> Harris Academy Merton Harris Academy Morden Harris Academy Primary Harris Wimbledon St Mark's Academy Benedict Academy Park Community School CHAS (Contractors Health and Safety Assessment Scheme) Beecholme Academy Aragon Academy Stanford Primary Academy Chapel Street Wimbledon and Putney Commons Conservators

The following table summarises the membership numbers of the scheme.

2020/21		2021/22
	Active Members	
3,871	London Borough of Merton	4,027
443	Scheduled bodies	479
45	Admitted bodies	40
4,359		4,546
	Pensioners	
3,780	London Borough of Merton	3,898
174	Scheduled bodies	178
133	Admitted bodies	138
4,087		4,214
	Deferred Pensioners	
5,421	London Borough of Merton	5,683
410	Scheduled bodies	470
118	Admitted bodies	112
5,949		6,265

c) Funding

The scheme is financed by contributions from employees and employers, together with income and proceeds from investment of the Pension Fund administered by the Authority in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013.

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2022. The employee contributions are matched by the employer contributions which are set based on triennial actuarial Funding valuations. The latest valuation occurred at 31 March 2019 (came into effect in 2020/21). Currently, employer contribution rates range from 12.0% to 26.4%. Some employers pay a monetary contribution towards past service costs.

d) Benefits

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Normal Pension Age is no longer assumed to be 65, but rather the State Pension Age, which is subject to change. This would affect survivor benefits and ill health provision.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its financial position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2020/21', which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is disclosed in Note 19.

The Fund was 103% funded at the 31 March 2019 valuation and remained essentially the same as at 31 March 2022. The Fund cash flow is marginally negative since the new contribution rate came into place from April 2020.

The majority of the investment income is being reinvested into the respective investment for added growth. However, The Fund is in a position to draw on its investments in the most appropriate order, should short term liquidity be required.

2.1 Going Concern

The accounts have been prepared on a going concern basis. Merton Pension Fund is an open scheme with a strong covenant from the participating employers and therefore able to take a long-term outlook when considering the general funding implications of external events.

Although the Coronavirus pandemic continued, global markets rebounded and rallied in later part of 2020 and throughout 2021. Then in late February 2022 Russia invaded the Ukraine raising risks for the global growth outlook in general, and Europe in particular.

Consistent with the general financial market, the Merton Pension Fund investments dropped in value. However, this drop was less significant than that due to the pandemic but its expected to be a longer road to recovery.

The latest actuarial funding update showed the Fund remains 104% funded at 31 March 2022. The majority of employers in the Fund are scheduled bodies and have secure public sector funding and as a result are more able to continue to make their pension contributions.

Even though the Fund is currently operating a relatively small operating cash flow shortfall it can disinvest to ensure that it is able to remain liquid for a period of at least 12 months from the date the financial statements are authorised for issue.

The Fund remains in a position to draw on its investments in the most appropriate order should short term liquidity be required with the vast majority of investment assets held being readily convertible to cash within a period of one month.

To address the current operating cash flow shortfall and in recognition of the mature nature of the Fund, (with the increasing number of retired and deferred Fund members relative to active Fund members), the investment strategy of the Fund is now to reinvest in cash generating investment assets'.

Given the above, the Fund considers it appropriate to prepare the financial statements on a going concern basis.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contribution Income

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

Employer deficit Funding contributions are accounted for on the due date on which they are payable in accordance with the recovery plan under which they are paid. Employers' deficit Funding contributions are made on the advice of the Authority's actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently twelve years).

Refund of contributions have been brought into the accounts on the basis of all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.

3.2 Transfers to and from other schemes

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an accruals basis for bulk transfers, which are considered material to the accounts.

3.3 Investment income

Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately if applies.

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

The figure shown as investment income is made up of different types of income (dividend income for equity, interest income for bond and distributions for pooled investments).

Revenue account – expense items

3.4 Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in

which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

3.5 Taxation

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

By virtue of LB Merton being the Administering Authority, VAT input tax is generally recoverable on all Fund activities.

3.6 Management Expenses

The code does not require any breakdown of pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from Fund assets managed by the Fund Managers. Custodian fees are paid via the custodian cash account.

A proportion of the Authority's costs representing management time spent by officers on investment management are charged to the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

3.7 Administrative Expenses

All administrative expenses are accounted for on an accruals basis. Pension administration has been carried out by the London Borough of Wandsworth on a shared service basis since 1st December 2013.

Net Asset Statement

3.8 Investment Assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

3.9 Movement in the net market value of investment

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

3.10 Foreign currency

Dividends, interest, purchases, and sales of investments are accounted for at the spot market rates at the date of transaction. End of year spot rate is used to calculate the closing cash balances held in foreign currency, overseas investments and purchases and sales outstanding at the end of the reporting period.

3.11 Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

3.12 Cash and cash equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to cash and subject to minimum risk of changes in value.

The cash balance includes cash held by the Fund managers, custodian and within the Funds' bank account.

3.13 Financial Liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from

changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

3.14 Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

3.15 Additional Voluntary Contributions

Merton Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund with Prudential. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 22.

3.16 Contingent Assets and Contingent Liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

Actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the Pension Fund liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used.

*Please see Notes 18 and 19 for more detail.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The main item in the Fund's Net Asset Statement at 31 March 2022 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £22.0m and a -0.1% reduction would increase the obligation by £22.5m. An adjustment to the mortality age rating assumption of -1 yr would decrease the obligation by £53.1m. McCloud- the actuary has included the impact of the McCloud as part of the 2019 Triennial valuation.
Unquoted Investments	The Pension Fund contains investments in unitised pooled property and private debt funds that are classified within the financial statements as level 3 investments (as detailed in note 15). These funds are valued according to non-exchange-based market valuations.	As a result of this, the final realised value of those pooled units may differ slightly from the valuations presented in the accounts. There is a risk that these investments may be under- or overstated in the accounts by up to 10% ie an increase or decrease of £63m.

6. Events After The Reporting Date

There were no events to disclose.

7. Contributions Receivable

2020/21 £000	By Category	2021/22 £000
17,127	Employers	18,130
7,100	Members	7,251
24,227	Total	25,381

202/21 £000	By Type	2021/22 £000
21,238	Administering	22,061
2,558	Scheduled	2,915
431	Admitted	405
24,227	Total	25,381

2020/21 £000	By Type	2021/22 £000
16,922	Employers normal	17,883
7,100	Employees normal	7,251
16	Deficit Funding	31
189	Employers additional	216
24,227	Total	25,381

8. Transfers In From Other Pension Funds

2020/21 £000		2021/22 £000
2,318	Individual Transfers	3,264
2,318	Total	3,264

9. Benefits Payable

2020/21 £000	By Category	2021/22 £000
23,286	Pensions	23,818
3,582	Commutations and lump sum retirement benefits	3,240
65	Lump sum death benefits	753
26,933	Total	27,811

2020/21 £000	By Authority	2021/22 £000
24,929	Administering	25,692
1,216	Scheduled	263
788	Admitted	1,856
26,933	Total	27,811

10. Payments to and on Account of Leavers

2020/21 £000		2021/22 £000
4,679	Individual transfers	4,935
0	Group transfers	15,655
100	Refunds of contribution	97
(2)	State scheme premiums	(2)
4,777	Total	20,685

11. Management Expenses

2020/21 £000		2021/22 £000
550	Administrative costs	678
1,294	Investment management expenses	2,159
297	Oversight and governance costs	158
2,141	Total	2,995

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11a. Investment Management Expenses

2021/22	Total £000	Management Fees £000	Performance Costs £000	Transaction Fees £000
Bonds	60	60	0	0
Pooled Investments	0	0	0	0
Pooled Property Investments	599	599	0	0
Private Debt	325	325	0	0
Infrastructure	1,150	1,150	0	0
	2,134	2,134	0	0
Custody Fees	25	0	0	0
Pooled Fees deducted at source	2,301	2,290	11	0
Total	4,460	4,424	11	0

Note: Fees deducted at source were calculated and deducted as part of the portfolio's daily Net Asset Value calculation.

2020/21	Total £000	Management Fees £000	Performance Costs £000	Transaction Fees £000
Bonds	(4)	(4)	0	0.30
Pooled Investments	115	115	0	0
Pooled Property Investments	524	524	0	0
Private Debt	224	224	0	0
Infrastructure	448	448	0	0
	1,307	1,307	0	0.3
Custody Fees	(13)	0	0	0
Pooled Fees deducted at source	1,883	1,873	10	0
Total	3,177	3,180	10	0.3

12. Investment Income

2020/21		2021/22
£000		£000
174	Bonds	0
2,951	Pooled equity investments	3,164
3,993	Pooled investments (Other)	4,270
851	Pooled property investments	975
(872)	Infrastructure	2,317
1,544	Private Debt	6,015
720	Other	11
9,361	Total	16,752

13. External Audit Cost

2020/21		2021/22
£000		£000
16	Payable in respect of external audit	16
11	Payable in respect of other services	36
27	Total	52

14. Investment

14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value of the assets (including accrued dividends) by Fund Manager and the proportion managed by each manager as at 31 March 2021.

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Market Value 31 March 2021 £000	Market Value 31 March 2021 %	Fund Manager	Market Value 31 March 2022 £000	Market Value 31 March 2022 %
		Investments managed by LCIV regional asset pool		
94,195	10.5	Blackrock	109,322	11.8
39,506	4.4	JPM Emerging Markets	35,466	3.8
145,056	16.2	Baillie Gifford	165,341	17.9
37,389	4.2	Ruffer	89,863	9.7
104,412	11.6	RBC	91,257	9.9
74,847	8.3	CQS	76,663	8.3
		Investments managed outside the LCIV regional asset pool		
219,363	24.5	UBS Asset Management	123,798	13.4
8,353	0.9	Macquarie	15,820	1.7
11,834	1.3	Quinbrook	48,330	5.2
17,799	2.0	JPM Infrastructure	17,570	1.9
16,353	1.8	Churchill	17,689	1.9
15,043	1.7	Permira	22,670	2.5
104,906	11.7	Wells Fargo	101,300	11.0
7,612	0.9	Blackrock property	8,973	1.0
150	0.0	LCIV Subscription	150	0.0
896,818	100.0	Total	924,212	100.0

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Market Value 31 March 2020 £000	Market Value 31 March 2020 %	Fund Manager	Market Value 31 March 2021 £000	Market Value 31 March 2021 %
		Investments managed by LCIV regional asset pool		
68,529	10	Blackrock	94,195	10.5
25,753	3.8	JPM Emerging Markets	39,506	4.4
100,180	14.6	Baillie Gifford	145,056	16.2
32,909	4.8	Pyrford	0	0.0
0	0	Ruffer	37,389	4.2
71,358	10.4	RBC	104,412	11.6
59,756	8.7	CQS	74,847	8.3
		Investments managed outside the LCIV regional asset pool		
176,181	19.7	UBS Asset Management	219,363	24.4
11,277	1.7	Macquarie	8,353	0.9
7,339	1.1	Quinbrook	11,834	1.2
19,445	2.8	JPM Infrastructure	17,799	2.0
11,233	1.6	Churchill	16,353	1.8
4,474	0.7	Permira	15,043	1.7
88,961	13	Wells Fargo	104,906	11.9
7,578	1.1	Blackrock property	7,612	0.9
7	0	Aberdeen Asset Management	0	0.0
150	0	LCIV Subscription	150	0.0
685,130	100	Total	896,818	100

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2022 is shown in the following table.

Market Value 31 March 2021 £000	Investment Assets	Market Value 31 March 2022 £000
71,973	Bonds	98,413
550,305	Pooled equity investments	418,527
147,647	Pooled investments (other)	252,337
24,080	Pooled property investments	29,040
31,396	Private Debt	40,359
37,506	Infrastructure	81,543
246	Derivatives	(4,705)
33,035	Cash held with fund managers	8,371
480	Investment income due	177
896,668	Total Investment Assets	924,062
0	Investment Liabilities	0
150	LCIV Subscription	150
896,818	Net investment assets	924,212

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14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2021/2022. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown.

	Market Value 1 April 2021 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2022 £000
Bonds	71,973	68,310	(43,276)	1,406	98,413
Pooled Equity Investments	550,305	3,163	(159,394)	24,453	418,527
Pooled Investments Other	147,647	103,270	–	1,420	252,337
Private Debt	31,396	9,309	–	(346)	40,359
Infrastructure	37,506	36,233	–	7,804	81,543
Pooled Property	24,080	–	–	4,960	29,040
	862,907	220,285	(202,670)	39,697	920,219
Derivative Contracts					
Forward Currency Contracts	246	–	(246)	(4,705)	(4,705)
	863,153	220,418	(202,916)	34,992	915,514
Other Investment Balances					
Cash with Fund Managers	33,035	(68,310)	43,036	610	8,371
Infrastructure Adjustment *	–	–	–	(2,677)	–
Currency-Realised/Unrealised gain/(Loss)	–	–	–	(122)	–
Investment Income Due	480	–	–	–	177
LCIV Subscription	150	–	–	–	150
	33,665	–	–	(2,189)	8,698
Net Investment Assets	896,818	–	–	32,803	924,212

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Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2020/2021.

	Market Value 1 April 2020 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2021 £000
Bonds	69,819	103,118	(98,101)	(2,863)	71,973
Pooled Equity Investments	395,323	2,951	(16,500)	168,531	550,305
Pooled Investments Other	122,684	38,891	(34,898)	20,970	147,647
Private Debt	15,707	16,178	(4,263)	3,774	31,396
Infrastructure	37,687	3,249	–	(3,430)	37,506
Pooled Property	24,212	–	–	(132)	24,080
	665,432	164,387	(153,762)	186,850	862,907
Derivative Contracts					
Forward Currency Contracts	(6,702)	–	–	6,948	246
	658,730	164,387	(153,762)	193,798	863,153
Other Investment Balances					
Cash with Fund Managers	25,851	(103,118)	98,101	12,201	33,035
Cash income/mgt expenses	0	–	–	100	0
Infrastructure Adjustment *	0	–	–	2,677	0
Investment Income Due	399	–	–	–	480
LCIV Subscription	150	–	–	–	150
	26,400	–	–	14,978	33,665
Net Investment Assets	685,130	–	–	208,776	896,818

14.4 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2022.

15. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques, which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Market value based on current yields	Not required	Not required
Pooled investments –Property Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equities	Level 3	The development, pre-construction and construction-stage assets are held at cost	Not required	Not required

15a Fair Value Hierarchy

The valuation of financial instruments can be classified into three levels, according to the quality and reliability of information used to determine fair values. All the financial instruments of the Fund are classified as level 1, 2 and 3, as follows:

Level 1 – Where the fair values are derived from unadjusted quoted prices in active

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markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trust.

Level 2 – Where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 – Where at least one input that could have a significant effect on the Instrument’s 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, 2 and 3, based on the level at which the fair value is observable.

31 March 2021 Quoted market price Level 1 £000	31 March 2021 Quoted market price Level 2 £000	31 March 2021 Quoted market price Level 3 £000		31 March 2022 Quoted market price Level 1 £000	31 March 2022 Quoted market price Level 2 £000	31 March 2022 Quoted market price Level 3 £000
777,933	16,468	68,902	Financial assets at fair value through profit and loss	773,695	20,067	121,902
33,515	0	0	Loans and Receivables	8,548	0	0
0	0	0	Financial liabilities at fair value through profit and loss	0	0	0
811,448	16,468	68,902	Total	782,243	20,067	121,902

16. Financial Instruments

16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

31 March 2021 Designated at fair value through profit and loss	31 March 2021 Assets at amortised cost	31 March 2021 Financial liabilities at amortised costs		31 March 2022 Designated at fair value through profit and loss	31 March 2022 Assets at amortised cost	31 March 2022 Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial Assets			
71,973	0	0	Bonds	98,413	0	0
697,952	0	0	Pooled Investments	670,864	0	0
24,080	0	0	Pooled Property Investments	29,040	0	0
68,902	0	0	Private Debt & Infrastructure	121,902	0	0
0	150	0	LCIV Subscription	0	150	0
246	0	0	Derivatives	(4,705)	0	0
0	33,035	0	Cash With Fund Managers	0	8,371	0
480	0	0	Other Investment Balances	177	0	0
0	1,172	0	Sundry Debtors	0	1,597	0
0	1,248	0	Cash	0	5,043	0
863,633	35,605	0		915,691	15,161	0
			Financial Liabilities			
0	0	(907)	Sundry Creditors	0	0	(6,361)
863,633	35,605	(907)	Total	915,691	15,161	(6,361)

16.2 Net gains and losses on financial instruments

The table below shows net gains on financial assets at fair value through profit and loss.

31 March 2021	Financial Assets	31 March 2022
£000		£000
208,776	Fair Value through profit and loss	32,803
208,776	Total	32,803

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Advisory Panel. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. The Investment Strategy Statement and Risk Register are reviewed regularly to reflect changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous Fund manager selection process. In addition, the Fund employs an adviser, Mercer, who provides advice on investment issues.

17.2 Market risk

The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. Riskier assets in the Fund such as equities display greater potential price

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volatility than bonds and other asset classes. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2022 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	98,413	7.8	106,089	90,737
Equities & Emerging Markets	418,527	14.2	477,958	359,096
Diversified Growth	175,674	6.2	186,566	164,782
Multi Asset Credit	76,663	7.8	82,643	70,683
Pooled Property	29,040	4.2	30,260	27,820
Private Debt & Infrastructure	121,902	4.7	127,631	116,173
Cash	8,371	0.9	8,446	8,296
Derivatives	(4,705)	0.0	(4,705)	(4,705)
Income Due	177	0.0	177	177
LCIV Subscription	150	0.0	150	150
Total Assets	924,212		1,015,215	833,209

Asset Type	Value at 31 March 2021 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	71,973	7.5	77,371	66,575
Equities & Emerging Markets	550,305	14.3	628,999	471,611
Diversified Growth	72,800	6.4	77,459	68,141
Multi Asset Credit	74,847	7.5	80,461	69,233
Pooled Property	24,080	2.2	24,610	23,550
Private Debt & Infrastructure	68,902	4.8	72,209	65,595
Cash	33,035	0.9	33,332	32,738
Derivatives	246	0	246	246
Income Due	480	0	480	480
LCIV Subscription	150	0	150	150
Total Assets	896,818	9.6	995,317	798,319

Note: The % change for total assets includes the impact of correlation across asset classes

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2022 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). Whether those changes are caused by factors specific to individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-) %
Bonds and Index Linked	7.8
Equities	14.2
Diversified Growth	6.2
Multi Asset Credit	7.8
Property	4.2
Private Debt and Infrastructure	4.7
Cash	0.9

17.5 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

17.6 Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the GBP. The majority of foreign equities in the UBS portfolio are

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priced in GBP thereby reducing currency risk fluctuations. The % change has been derived from the measurement of volatility of the Fund over three years.

The table below shows the currency exposure by asset type as at 31 March 2022.

Asset Type	Value at 31 March 2022 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	22,374	7.3	24,007	20,741
Private Debt & Infrastructure	99,232	7.3	106,476	91,988
Total Overseas Assets	121,606		130,483	112,729

The table below shows the currency exposure by asset type as at 31 March 2021.

Asset Type	Value at 31 March 2021 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	21,363	8.4	23,157	19,569
Private Debt & Infrastructure	53,447	8.4	57,937	48,957
Total Overseas Assets	74,810		81,094	68,526

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2022. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Assets exposed to currency risk	Value at 31 March 2022 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	22,374	8.3	24,231	20,517
Private Debt & Infrastructure (US Dollar)	99,232	8.3	107,468	90,996
Total	121,606		131,699	111,513

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Assets exposed to currency risk	Value at 31 March 2021 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	21,363	8.5	23,179	19,547
Private Debt & Infrastructure (US Dollar)	53,447	8.5	57,990	48,904
Total	74,810		81,169	68,451

17.7 Credit risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing.

The average long-term credit rating in the bond portfolio is AA as at 31 March 2022. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

The table below shows the credit quality for the Bond portfolio.

Value at 31 March 2021 £000		Value at 31 March 2022 £000
32,687	AAA	7,592
71,973	AA	98,413
104,660	Total	106,005

17.8 Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash balance to meet its commitments. The Fund's cash holding as at 31 March 2022 was £5m (31 March 2021: £1.2m).

17.9 Refinancing risk

This is the risk that the Authority will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavorable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a Funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 (effective from April 2020) and the next valuation will take place as at 31 March 2022.

The key elements of the Funding policy are:

1. To ensure the long-term solvency of the Fund, i.e. that sufficient Funds are available to meet pension liabilities as they fall due for payment;
2. To ensure that employer contribution rates are as stable as possible;
3. To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
4. To reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so, and;
5. To use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 12 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the Funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

As at the 2019 actuarial valuation, the Fund was assessed as 103% Funded. This corresponded to a surplus of £20m at that time of the valuation.

The table below shows the Funding level and deficit for the past three triennial valuations.

	2013 Valuation	2016 Valuation	2019 Valuation
Funding Level %	89.0	94.0	103.0
Funding (Deficit)/Surplus £m	(53.2)	(32.7)	20

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The assessed value of assets held by the Fund at 31 March 2019 was £718.m (2016 valuation: £526m), whilst the liabilities accrued in respect of pensionable service were £698m (2016 valuation: £558m).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows.

Financial Assumptions

Financial Assumption		31-Mar-19	31-Mar-16
Discount rate		4.8%	5.5%
Pay increase	Long Term	3.6%	3.9%
	Short Term	N/A	Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020
Consumer price inflation (CPI)		2.6%	2.4%
Pension increases		2.6%	2.4%
Pension increases on Guaranteed Minimum Pension (GMP)		Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date, we have assumed that Funds are required to pay the entire inflationary increase.	For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Demographic Assumptions			
Male	Current Pensioners	21.4	24.3
	Retiring in 20 yrs	22.7	26.5
Female	Current Pensioners	24.0	25.9
	Retiring in 20 yrs	25.4	28.2

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose, the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for Funding purposes. In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2022, using a valuation methodology that is consistent with IAS19.

The financial assumptions used for the purposes of the calculations are as follows:

Financial Assumptions	Assumptions as at 31 March 2022 %
Inflation/Pension Increase Rate	3.15
Salary Rate Increase	4.15
Discount Rate	2.60

The value of the Fund's promised retirement benefits as at 31 March 2022 was:

31 March 2021 £m		31 March 2022 £m
1,266	Present value of promised retirement benefits	1,262

20. Current Assets

31 March 2021 £000	Current Assets	31 March 2022 £000
1,953	Contributions Due	2,502
1,172	Sundry Debtors	1,597
1,248	Cash	5,043
4,373	Total	9,142

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Analysis of Debtors

31 March 2021 £000	Current Debtors	31 March 2022 £000
1,676	Administering Body	2,259
277	Admitted and Scheduled Bodies	243
1,172	Sundry Debtors	1,597
3,125	Total	4,099

21. Current Liabilities

31 March 2021 £000	Creditors	31 March 2022 £000
(4)	Fund Managers Fees	0
(524)	Sundry	(5,974)
(379)	Payroll	(387)
(907)	Total	(6,361)

22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the Pension Fund accounts but are paid over by the Authority's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2021/22 to AVC schemes outside the Authority's responsibility was £0.262m (£0.396m at 31 March 2021). The total value of accumulated AVC's at 31 March 2022 is £2.46m (£2.69m at 31 March 2021).

23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.23m (2020/21 £0.36m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

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No members of the pension Fund committee are in receipt of pension benefits from the Merton Pension Fund. The three officers and the two staff pensioner reps of the committee are active members of the Fund.

In addition, the four local pension board members are active members of the pension Fund.

Each member of the pension Fund committee is required to declare their interests at each meeting. No other declarations were made during the year.

Key Management Personnel

The key management personnel of the Fund are the Director of Corporate Services, the Assistant Director of Resources and the Head of Treasury and Pensions. Total remuneration payable to key management personnel is shown below:

	31 March 2021 £	31 March 2022 £
Short-term benefits	87,186	88,941
Total remuneration	87,186	88,941

24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2022 were £19.2m (31 March 2021 £29.06m).

These commitments relate to outstanding call payments due on private debt and infrastructure investments. The amounts 'called' by these investments are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

Governance Arrangements

From July 2021 the Pension fund advisory has been changed to a fully decision making s101 Committee. It is no longer an advisory panel.

Please find below the updated T&Cs.

1.7 Pensions Committee

(a) Membership: 3 Councillors who shall be voting members plus two non-voting members comprising one staff representative and one pensioner representative to be appointed at the discretion of the Council (b) Functions:

- (i) To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset and review the Investment Strategy Statement and amend it when necessary. This includes the authority to do the following;
- (ii) To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically;
- (iii) To agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available;
- (iv) To receive regular reports from the London CIV and to agree and resultant actions from a review of the investments held with the London CIV;
- (v) To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
- (vi) To agree policy guidelines for the exercise of voting rights attached to the Fund's shares;
- (vii) To review the appointment of specialist advisors and service providers and make new appointments as necessary;
- (viii) To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes;
- (ix) To agree on the Pension fund's sustainable investment policy and consider the impact of the ESG on each investment decisions

(c) The Director of Corporate Services is be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the

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Committee, reporting back to next scheduled meeting of the Pensions Committee on any exercise of these powers (d) Knowledge and understanding (including Training) Committee members are expected to attend/complete training arranged by the Fund in order to meet and maintain the Merton Pension Fund and the LGPS knowledge and skills requirements. (e) Non-Voting Members i. The non-voting members of the Committee shall be appointed until the date of the next all council elections. ii. Non-voting members shall not be entitled to send substitutes in their absence iii. If a non-voting member does not attend for 2 consecutive meetings, then unless that nonattendance is for a reason approved in advance by the Committee, their membership of the Committee shall automatically cease and the Director of Corporate Resources shall be entitled to appoint replacement members. iv. If a non-voting member resigns or is otherwise unable to continue as a member, the Director of Corporate Resources shall be entitled to appoint a replacement member.

The Committee has responsibility for all Fund matters including governance, investments, funding, accounting, employer, and scheme member engagement, communications, and administration.

The Pensions Act 2013 also required mandatory Pension Boards to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself. As such, a new Board was created.

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 required an Administering Authority to establish a local Pension Board and was formed by 1 April 2015.

Delegation of functions

Merton Council has delegated its Pension Fund management to the Pension Fund Committee.

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In addition, and in accordance with the Public Service Pensions Act 2013, Merton Council has established a local Pensions Board ‘the Board’, for the purposes of assisting the administering authority (Merton) in the governance of the scheme.

The Pensions Committee is advised by the Pension investment management team at Merton and the Fund’s investment consultants.

The Director of Corporate Services is responsible for ensuring that the in-house team provides adequate support to both the Committee and the Board. The investment managers make presentations to the Pensions Committee at its formal meetings on the Fund performance, implementation of the investment policy and any other developments. The public reports to the Pensions Committee are published on the Council’s website.

The Fund’s procedures are subject to audit and scrutiny by both the Council’s internal audit team and its external auditor, Ernst and Young LLP.

This delegation of functions complies with the current guidance issued by the Secretary of State.

The terms of reference for the Pensions Committee are:

- To establish, in consultation with relevant advisors, appropriate investment policy for the Pension Fund, and to advise General Purposes Committee accordingly,
- To advise officers on the exercise of their delegated powers concerning the management and investment strategy of the Pension Fund and to report to and advise General Purposes Committee as appropriate,
- To monitor the performance of the Pension Fund relative to its objectives, benchmarks, and targets, and to prompt remedial action as necessary,
- To review the draft Annual Report and Accounts for the Pension Fund and provide comments to the General Purposes Committee in respect of the investment matters reported therein.

The frequency of meetings

The Pensions Committee meets every quarter; additional meetings are convened as and when required. A yearly calendar giving details of the times and venue of the Pensions Committee meetings is posted on the Council's website.

The Pension Committee meetings are held in Merton Civic Centre, Morden and are open to members of the public.

Representatives

The Pensions Committee draws its membership from "interested parties" as follows:

- Membership: Voting – 3 Councilors
- Non-voting – Chief Finance Officer (or delegate),
- Treasury and Pensions Manager,
- Staff Side Representative,
- Pensioner Representative

Only the Councilor members have voting rights. The non-voting employee and pensioner representatives are elected through an election.

Provision is made for Councilor Members and representatives to undergo training sessions to assist them in making informed decisions about investments and other matters related to the Local Government Pension Scheme.

Pensions Board

A local pension's board was established in April 2015 to assist the administering authority in the governance and administration of the Local Government Pension Scheme.

The frequency of meetings

The Board will meet at least three times per year but may choose to meet more regularly. A yearly calendar giving details of the times and venue of the Board's meetings is posted on the Council's website. The Board meetings are held in Merton Civic Centre.

Representatives

- 2 Member Representatives;
- 2 Employer Representatives; and,
- 1 Further representative without voting rights to be appointed at the discretion of the Council.

All four/five members have voting rights. The employee and pensioner representatives are elected through a postal ballot.

The terms of reference for the Pension Board are:

(a) To secure compliance with:

- i.) Regulations made under the Public Service Pensions Act 2013 that apply to the matters referred to in sections 5 and 6 of that Act.
- ii.) Any other legislation relating to the governance and administration of the Scheme and any connected scheme
- iii.) Any requirements imposed by the Pensions Regulator in relation to the Scheme.

(b) Ensure the effective and efficient governance and administration of the Scheme. Merton Council will ensure that all members of both the PFAP and the Board receive appropriate training and formally declare that they do not have conflicts of interest.

Governance Compliance Statement

The Governance Policy sets out London Borough of Merton's arrangement for carrying out its responsibilities as Administering Authority for Merton Pension Fund as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013.

The statement includes:

- An outline of the governance structure and the roles and responsibilities of each element within the structure (including whether the element is executive or;
- Membership of the pensions panel/committee and any associated sub committees within a matrix showing for each member: voting rights attendance at meetings.

The full version of the Governance Compliance Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Funding Strategy Statement

The Funding Strategy Statement for the London Borough of Merton Pension Fund which is administered by London Borough of Merton has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013.

The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of the Statement.

The purpose of the FSS is to explain the Fund's approach to meeting the pension scheme's liabilities and in particular:

- to establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met;
- to take a prudent longer-term view of funding those liabilities; and
- to support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.

The full version of the Funding Strategy Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Investment Strategy Statement

Under the Public Service Pensions Act 2013 (The Act) the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1st November 2016.

Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State

Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the Fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

- (a) A requirement to invest money in a wide variety of investments,
- (b) The authority's assessment of the suitability of particular investments and types of investments,
- (c) The authority's approach to risk, including the ways in which risks are to be measured and managed,
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services,
- (e) The authority's approach on how social, environmental, or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and,
- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The full version of the Investment Strategy Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Communications Policy

The Local Government Pension Scheme Regulations 2013 (Regulation 67) require each administering authority to prepare, publish and maintain a written statement setting out their policy concerning their communications with:

- a) prospective members,
- b) members,
- c) representatives of members; and,
- d) employing authorities.

In particular, the statement must set out their policy on—

- a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- b) the format, frequency, and method of distributing such information or publicity; and
- c) the promotion of the Scheme to prospective members and their employing authorities.

Enquiries

Any enquiries in relation to this Communication Policy Statement should be sent to:

E-mail: pensions@richmondandwandsworth.gov.uk

Telephone: 020 8871 8036

Address:

Pensions Shared Service

Camden, Merton, and Wandsworth & Richmond

PO Box 72351

London

SW18 9LQ

The full version of the Communications Policy is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Independent Auditors Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON ON THE PENSION FUND'S FINANCIAL STATEMENTS

Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022 and the amount and disposition at that date of the its assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Interim Executive Director of Finance and Digital use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's

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ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Interim Executive Director of Finance and Digital with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the London Borough of Merton Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Interim Executive Director of Finance and Digital is responsible for the other information contained within the Statement of Accounts 2021/22.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Interim Executive Director of Finance and Digital

As explained more fully in the Statement of the Interim Executive Director of Finance and Digital' Responsibilities set out on page 188, the Interim Executive Director of Finance and Digital is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021 /22, and for being satisfied that they give a true and fair view. The Interim Executive Director of Finance and Digital is also responsible for such internal control as the Interim Executive Director of Finance and Digital determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Interim Executive Director of Finance and Digital is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with Interim Executive Director of Finance and Digital.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- We understood how the Fund is complying with those frameworks by making enquiries of the management. We corroborated this through our reading of the Pension Board minutes, through enquiry of employees to confirm Pension policies, and through the inspection of employee handbooks and other information.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes.
- We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud.
- In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- To address our fraud risk of manipulation of investment income and valuation we:
 - Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences;
 - Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;
 - Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
 - Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk.
- The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team including the use of specialists where appropriate, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the

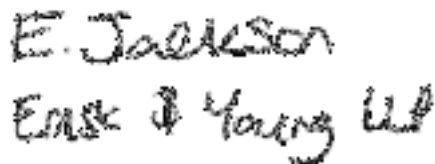
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control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

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

Use of our report

This report is made solely to the members of the London Borough of Merton, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Merton and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Handwritten signature of E. Jackson and the Ernst & Young LLP logo.

Elizabeth Jackson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Luton

07 February 2023

Independent Auditors Consistency Report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON ON THE PENSION FUND FINANCIAL STATEMENTS

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2022, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of the London Borough of Merton for the year ended 31 March 2022 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Respective responsibilities of the Interim Executive Director of Finance and Digital and the auditor

As explained more fully in the Statement of the Interim Executive Director of Finance and Digital's Responsibilities, the Interim Executive Director of Finance and Digital is responsible for the preparation of the pension fund's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Merton, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of;

- The Chairperson Statement
- Merton Pension Fund Introduction
- Statement of Responsibilities of the Pension Fund
- Management and Advisors of the Fund
- Risk Management
- Financial Performance
- Investment Policy and Performance

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- Pension Administration Report
- Asset Pools
- Actuary's Statement as at 31 March 2022
- Merton Pension Fund Accounts
- Governance Arrangements
- Governance Compliance Statement
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion[s] on those financial statements.

E. Jackson
Ernst & Young LLP

Elizabeth Jackson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton

07 February 2023