



Southwark Council pension fund annual report 2009/2010

Finance and Resources

www.southwark.gov.uk

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OVERVIEW

The London Borough of Southwark Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is a statutory funded scheme, governed by the Local Government Pension Scheme Regulations 1997 and subsequent amendments and regulations. This means its benefits are set out and guaranteed in law.

The Council is the administering authority. The finance director is responsible for fund investment and administration and for the preparation of the Fund's Statement of Accounts in accordance with the CIPFA Code of Practice. The costs of administration and of paying pensions and benefits are charged to the pension fund.

The Southwark Fund administered by London Borough of Southwark covers the pension entitlements of all eligible employees. A number of other bodies are also members and they include admitted bodies, scheduled bodies and community bodies.

Employees can now choose to join, remain within the scheme or make their own personal pension arrangements.

The scheme has to be fully funded or have a plan to become so. It is financed by contributions from employers and employees and by earnings from investments. Funds not immediately required to meet pensions and other benefits are invested in a selection of securities, equities and property. The pension fund must be sufficient to meet the future pension entitlements of both past and present employees. This is achieved by adjusting the level of employers' contributions every three years following an actuarial review of the Fund by its Actuary, Hewitt Associates.

Contributions & Benefits

Legislation requires regular three yearly actuarial valuations of local authority pension funds to determine the annual contributions to be made by the employing bodies. The valuation on which the employers' contributions for 2009/10 were based was carried out as at 31 March 2007 and will apply for the three years from 1 April 2008. The 2010 valuation is currently underway and revised contribution rates will take effect from 1 April 2011.

From 1 April 2008 the rules of the new LGPS Scheme have applied. Previously employees generally contributed to the scheme at a rate of 6% of pensionable pay. Under the new scheme tiered contribution rates apply based on pensionable pay.

The administering authority is also required to enable employees to make additional voluntary contributions (AVCs) to obtain enhanced pension benefits. The AVC provider for the Southwark Pension Fund is Scottish Equitable.

The LGPS is a defined benefit "final salary" scheme. The annual pension and the retirement lump sum are based on length of service and usually the final twelve months of pay.

MANAGEMENT & FINANCIAL PERFORMANCE REPORT

Scheme Management and Advisers

Administering Authority	London Borough of Southwark
Pensions Advisory Panel Membership 2009/10	Councillors: Tim McNally (Chair) Toby Eckersley Fiona Colley Officers: Duncan Whitfield (Finance Director) Dave Howes (Asst. Finance Director) Bernard Nawrat (Head of HR) Observers: Roy Fielding (GMB) Euan Cameron (Unison) Advisers: Emily McGuire (Hewitt) Graham Wood (WM Company)
Actuaries	Hewitt
Property Solicitors	Dibb Lupton Alsopp Todds Murray
AVC Providers	Scottish Equitable
Auditors	Audit Commission
Performance Monitoring	WM Company
Custodians	JP Morgan BNP Paribas Securities Ltd
Investment Managers	BlackRock (formerly Barclays Global Investors) Alliance Bernstein Newton Investment Management Henderson Global Investors

Risk Management

The Finance Director has overall responsibility for all aspects of the administration and investments of the Fund. The Pensions Advisory Panel (PAP) act in their role as advisers to the Finance Director, taking into account the advice they receive from the Fund's external advisers. They make recommendations to the Finance Director on matters relating to the management of the Fund. The management of risks is a key factor in all recommendations made by the Panel, thereby ensuring any risks to the Council arising from the Fund are kept to an acceptable level.

The Pension Fund's risk register can be found at Appendix 2 of this report. The key risks facing the Fund are:

- Poor investment performance could lead to a larger deficit and therefore a requirement for higher employer contributions
- Asset/liability mismatch - assets could fail to rise at the same rate as liabilities resulting in a higher deficit.
- Inaccuracy of financial information - leading to qualification of accounts
- Reliance on third party providers for investment management and custodial services - failure of these parties could have a serious financial impact on the Fund
- Failure to comply with existing/new regulations - resulting in legal sanctions and detrimental effect on Council's reputation.
- Admitted/Scheduled Bodies: Failure of body/deficits on termination of contracts - could lead to an increase in the Council's contribution level to cover shortfall.
- Failure to control and monitor costs resulting in higher running costs for the Fund

The risk register sets out the controls in place to manage the above risks.

Financial Performance

Actual/Forecast Cash Flows 2009/10 – 2011/12

	Actual 2009/10 £000	Forecast 2010/11 £000	Forecast 2011/12 £000
INCOME			
Employer Contributions	34,483	32,995	33,490
Employee Contributions	11,027	10,950	11,114
Transfers In	4,790	3,571	3,100
TOTAL INCOME	50,300	47,516	47,704
EXPENDITURE			
Pensions Payable	29,804	30,930	31,861
Retirement & Death Benefits	7,950	6,930	7,000
Transfers Out	6,958	3,837	3,875
Administration Costs	907	731	819
Investment Management Expenses	3,648	2,839	2,867
TOTAL EXPENDITURE	49,267	45,267	46,422
NET CASH INFLOW FOR YEAR	1,033	2,249	1,282

Receipt of Contributions

All contributions due from admitted and scheduled bodies have been received within the statutory deadlines during the year. The requirement has not arisen to levy interest on overdue contributions.

Management Performance

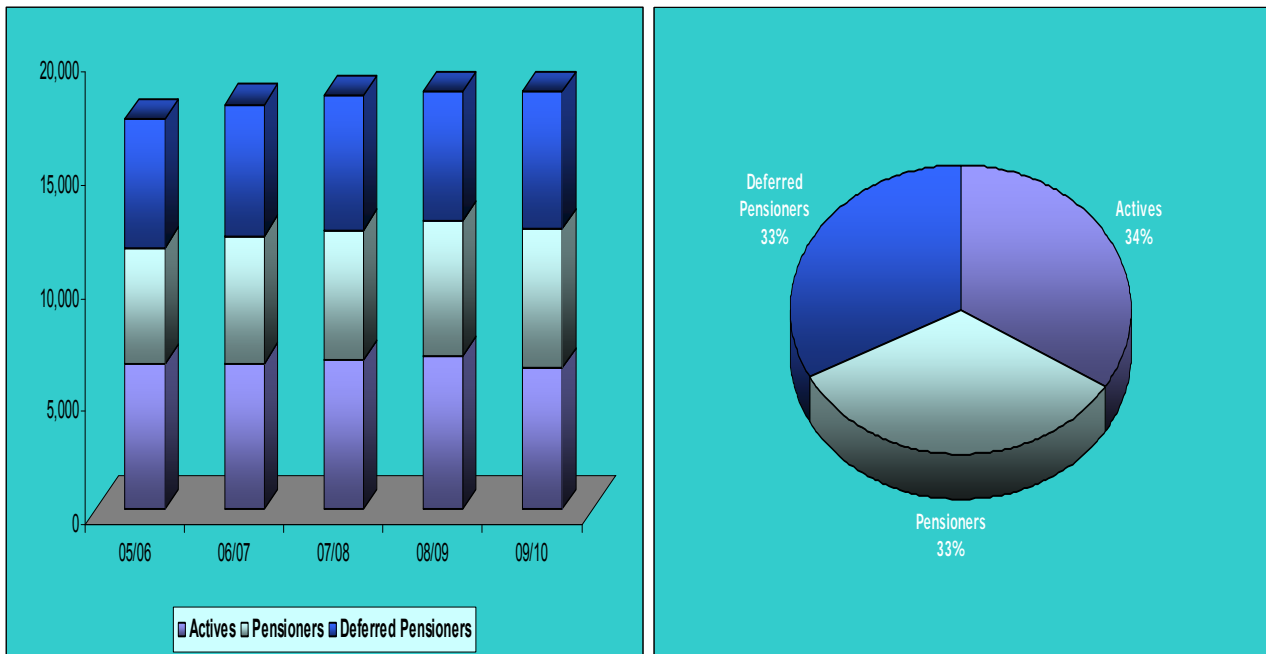
Key Administration Performance Indicators

Pensions Services works to an agreed (by peer London Boroughs) set of targets based on the number of working days between the date all of the information is available to Pensions Services and the date the case is authorised/finalised. The authorised/finalised date is when the benefits are set up for payment or information requested is sent out. The following table sets out performance against benchmark for each of the key tasks:

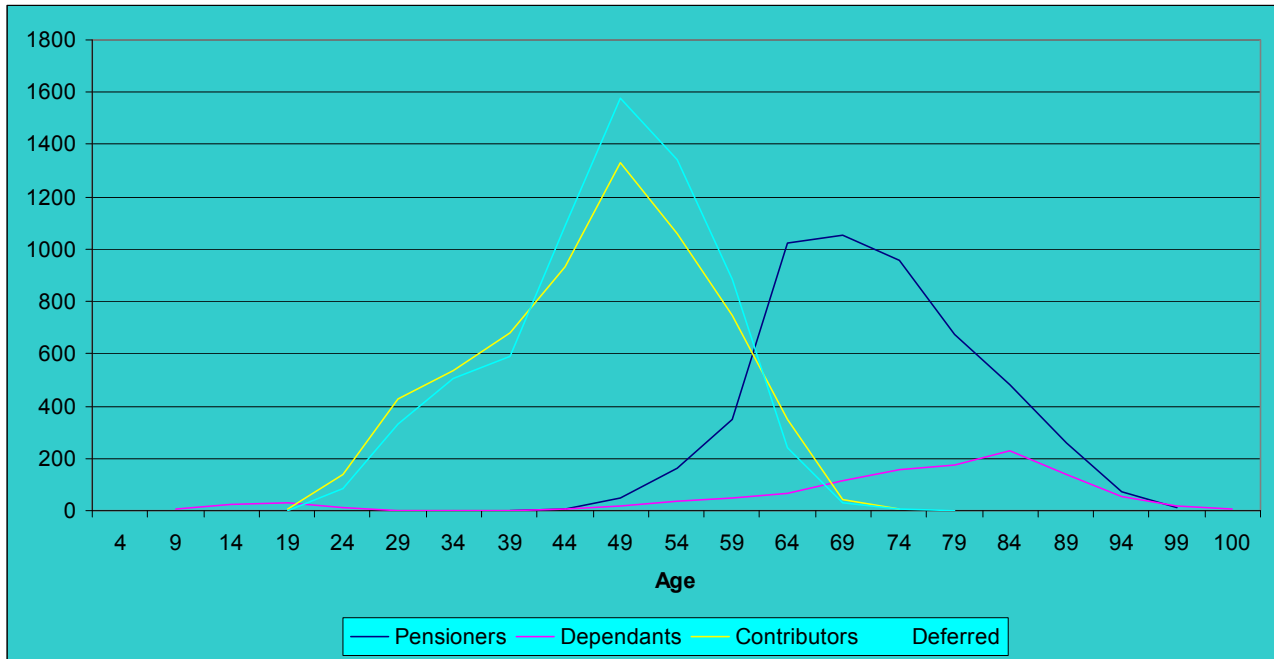
	Target Days	Total	Within Target	% Within Target	Average Days
Starters	10	421	308	73.16	28.43
TV In (Actual)	10	40	18	45	44.52
TV Out (Actual)	10	29	28	96.55	3.27
Refund	10	25	23	92	1.64
Preserved Benefit	15	661	548	82.91	10.17
Estimate Benefit	10	356	308	86.52	6.47
Retirement	5	302	272	90.06	4.28
Death in Service	5	6	6	100	1
Death on Pension	5	201	167	83.08	5.56

Scheme Membership

During 2009/10 the number of pensioners increased from 6,002 at 31 March 2009 to 6,164 at 31 March 2010. At the same time, the number of contributors within the Fund decreased from 6,777 to 6,285. The membership levels for the last 5 years and the membership split at 31 March 2010 are shown in the charts below:



Age Profile of Scheme Members at 31 March 2010



Of the pensioners, 13 received enhanced benefits because of ill-health during 2009/10.

Participating Employers

Appendix 1 lists the admitted and scheduled bodies participating in the Fund at 31 March 2010. Contributions paid by employers and employees are shown and employee contributions are split by contribution bands.

Investment Review 2009/2010

Report of the Financial Adviser

Investment Review to 31 March 2010

In the fiscal year 2009/10 the average Local Authority fund delivered an investment return of just over 35%; this is the highest return in the thirty year existence of the WM Local Authority Universe. The Southwark fund grew by 30.7%, an impressive return in absolute terms but below the Local Authority average.

A surge in the appetite for investment risk dominates the returns for the fiscal year. The actions of global authorities instilled confidence that a full blown recession was avoidable with the result that there was a scramble for oversold assets, both equity and non-government debt.

While the impetus was for rising asset values, the oscillation between fear and greed was very evident in market reaction to each new piece of news. This higher risk environment is likely to continue until government deficits come under control and there is clear growth across the global economy.

Equity returns for the fiscal year are all around the 50% mark. UK Equities, as measured by the FTSE All Share index returned 52.3%. North America and Continental Europe rose by 43.2% and 50.2% respectively; in both cases the returns were held back by the strengthening of sterling. Japan was the weakest of the major markets rising 'only' 29.6% while the rest of the Pacific, including the emerging markets, posted the highest return, 69.3%.

Bond returns varied enormously depending on the quality of issuer. Conventional government bonds, represented by the FTSE UK Gilts All Stocks, returned only 0.8% while corporate bonds were returning in excess of 30%. Inflation linked bonds also performed well with the Index-linked index rising over 10%.

Commercial property staged a modest recovery with the IPD Property Index rising by 16.0% over the year.

The Southwark fund underperformed the Local Authority average by over 3% in the fiscal year to end March 2010. A high commitment to Commercial property, 15% compared to the Local Authority average of 6%, reduced the return available to the Fund by around 1%. The active managers underperformed their respective benchmarks and this cost a further 2% of relative return.

Long Term

For the ten years to the end of March, the Fund's return of 3.4% per annum is below the Local Authority average of 3.8% per annum. Inflation over the ten years was 2.7% per annum as measured by the Retail Prices Index and 3.7% as measured by the National Average Earnings Index.

Over the last three years the Fund's return of 0.7% per annum lags the Local Authority average of 1.7% per annum. Over this period retail price inflation was 2.6% per annum while average earnings grew at 3.4% per annum.

Report prepared by Graham Wood, The WM Company.

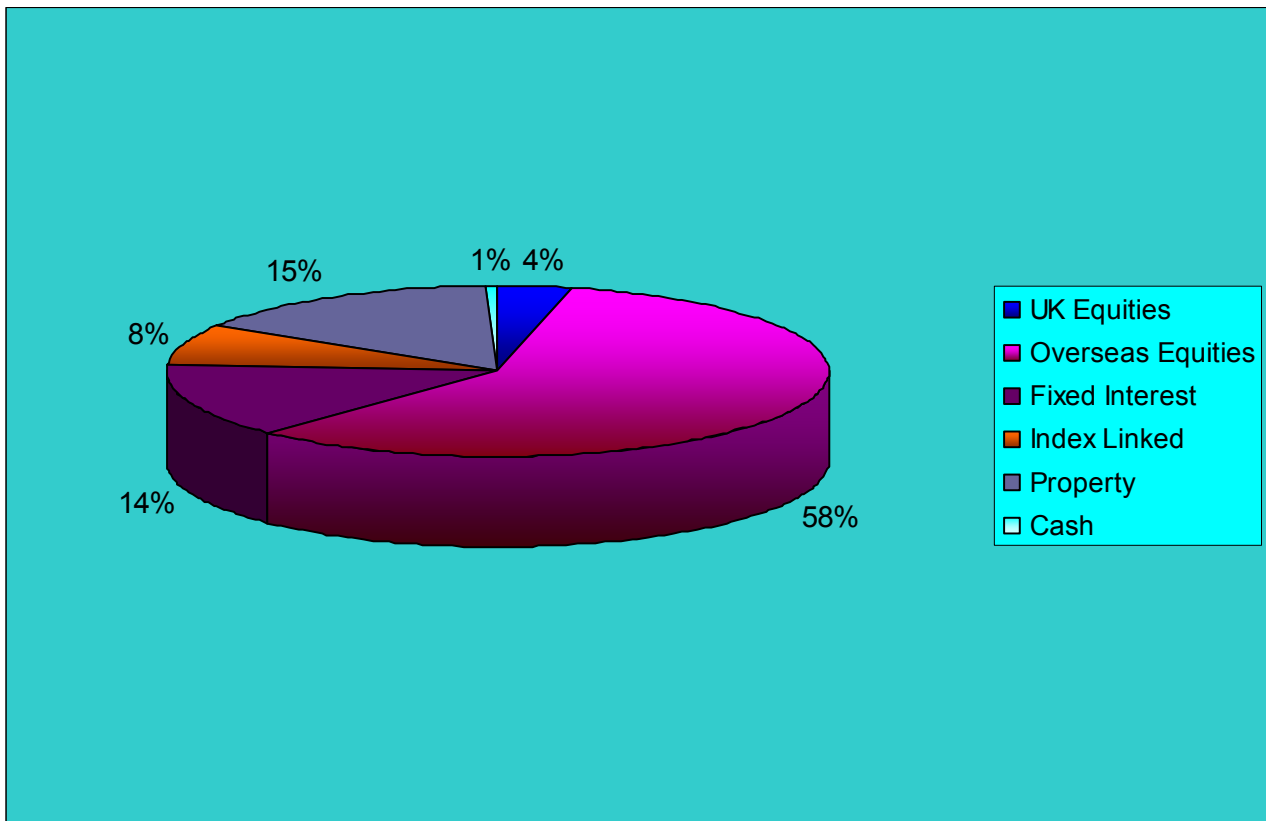
Information on the average Local Authority comes from the WM survey of local authority pension funds.

Asset Allocation Strategy

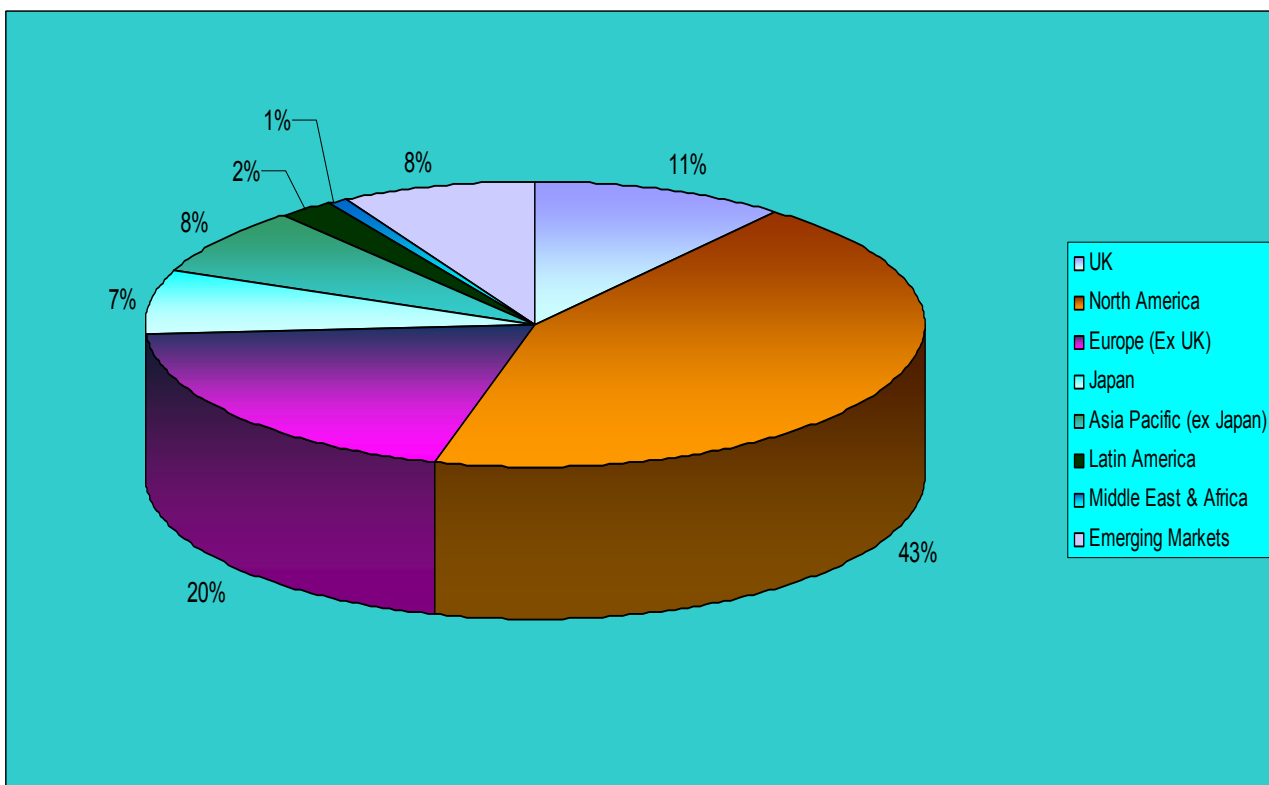
The Fund's assets are invested in various different investment products with the objective to generate returns to increase its funding level. Responsibility for investment is given to specialist fund managers who invest the funds in equities, bonds, property and other asset classes according to the investment mandate they are given. The following table lists the fund managers, the types of mandates they manage and the value of their holdings at 31 March 2010 in value and percentage terms:

Fund Manager	Mandate	Value at 31 March 2010 (£m)	% of Fund
BlackRock (formerly Barclays Global Investors)	Balanced ex Property	433.80	55.55
Alliance Bernstein (Growth)	Equities - Global	81.67	10.46
Alliance Bernstein (Value)	Equities - Global	73.00	9.35
Newton Investment Management	Equities - Global	67.65	8.66
Henderson Global Investors	Property	124.85	124.85
Total		780.98	100.00

Asset Allocation by Major Asset Class

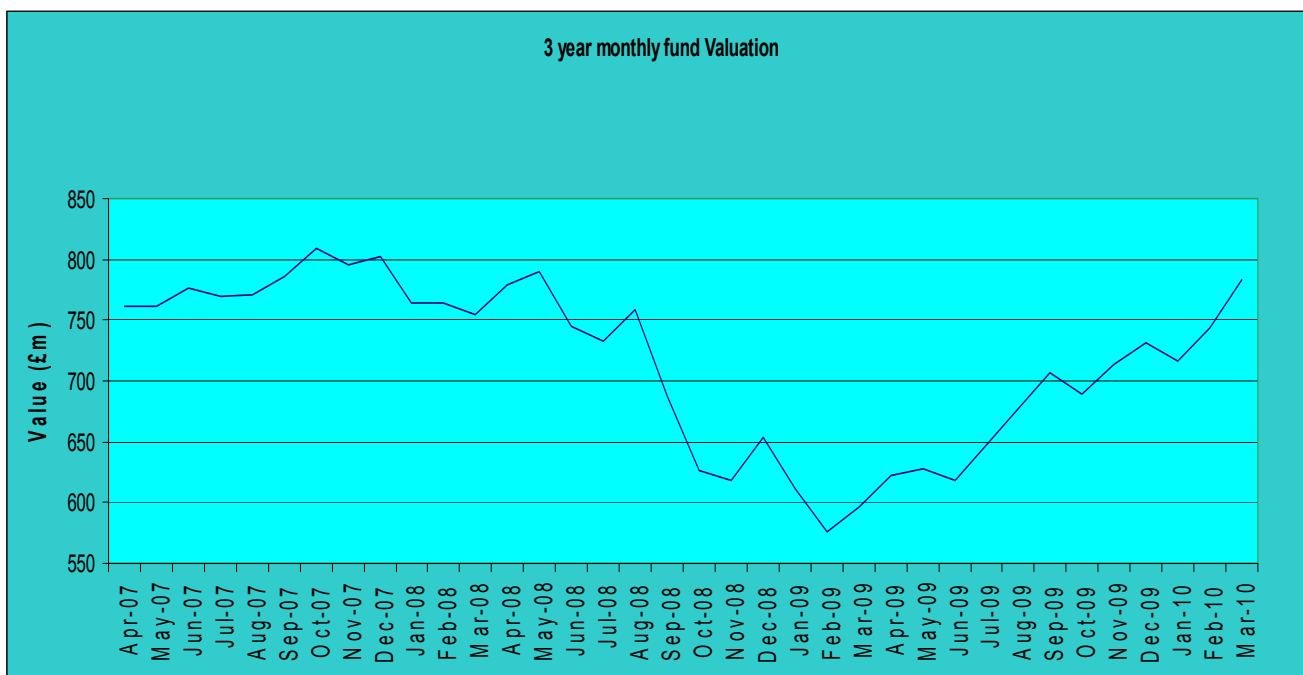


Equities – Geographical Split



Investment Performance

The following chart shows the total fund value over the last 3 years:



Performance Against Benchmark

Each manager has been given a performance benchmark, the constituents of which are detailed below:

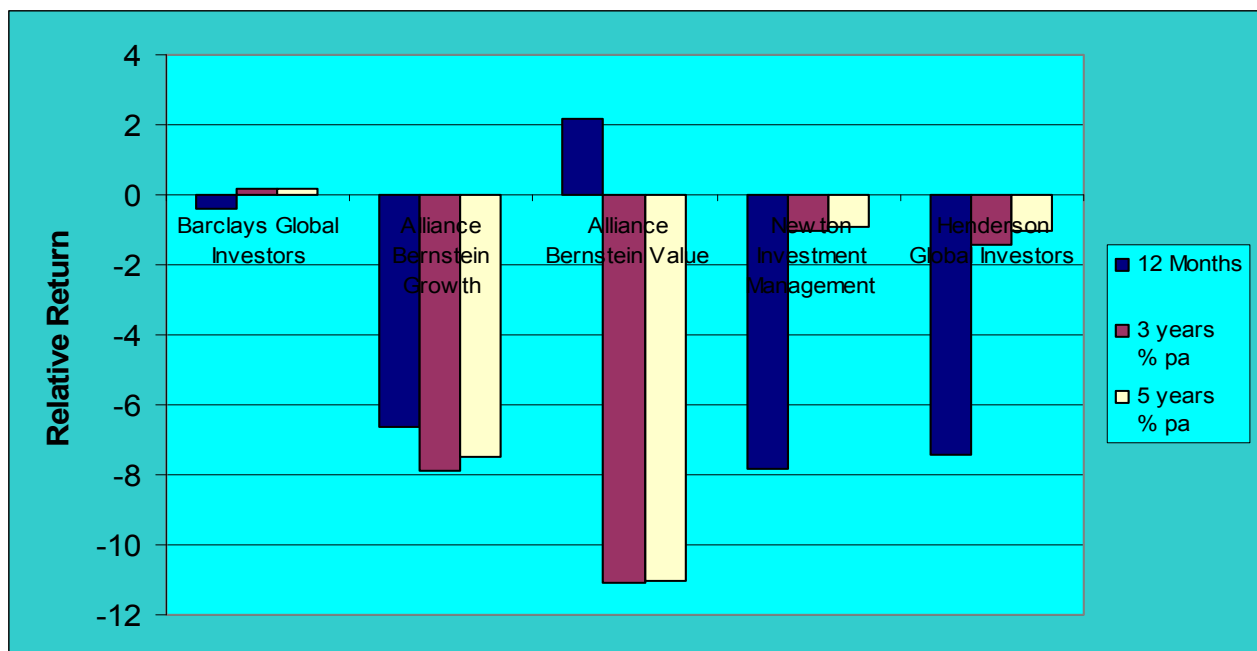
Manager	Benchmark	Outperformance of Benchmark Measured over 3 Year Periods % per annum
BlackRock - formerly Barclays Global Investors (multi asset)	FTSE All World Index FTSE UK Gilts > 15 yrs FTSE UK Index-Linked All Stocks Index	Match Index
Alliance Bernstein Value	FTSE All World Index	4% gross of fees over rolling 3 years
Alliance Bernstein Growth	FTSE All World Index	3% gross of fees over rolling 3 years
Newton	FTSE All World Index	3% net of fees over rolling 3 years
Henderson	IPD All Properties	1.00
Total Fund		1.00

Source: WM Company

Performance Against Benchmark By Investment Manager

		12 Months	3 years % pa	5 years % pa
BlackRock (formerly Barclays Global Investors)	Portfolio	33.5	6.6	10.0
	Benchmark	34.0	6.4	9.8
	Relative Return	-0.4	0.2	0.2
Alliance Bernstein Growth	Portfolio	38.6	-3.1	-2.4
	Benchmark	48.4	5.2	5.5
	Relative Return	-6.6	-7.9	-7.5
Alliance Bernstein Value	Portfolio	51.6	-6.5	-6.1
	Benchmark	48.4	5.2	5.5
	Relative Return	2.2	-11.1	-11.0
Newton Investment Management	Portfolio	36.7	4.1	4.6
	Benchmark	48.4	5.2	5.5
	Relative Return	-7.8	-1.0	-0.9
Henderson Global Investors	Portfolio	7.8	-9.5	0.5
	Benchmark	16.3	-8.2	1.6
	Relative Return	-7.4	-1.4	-1.0

Note: Returns are shown depending on date of inception of each investment manager.

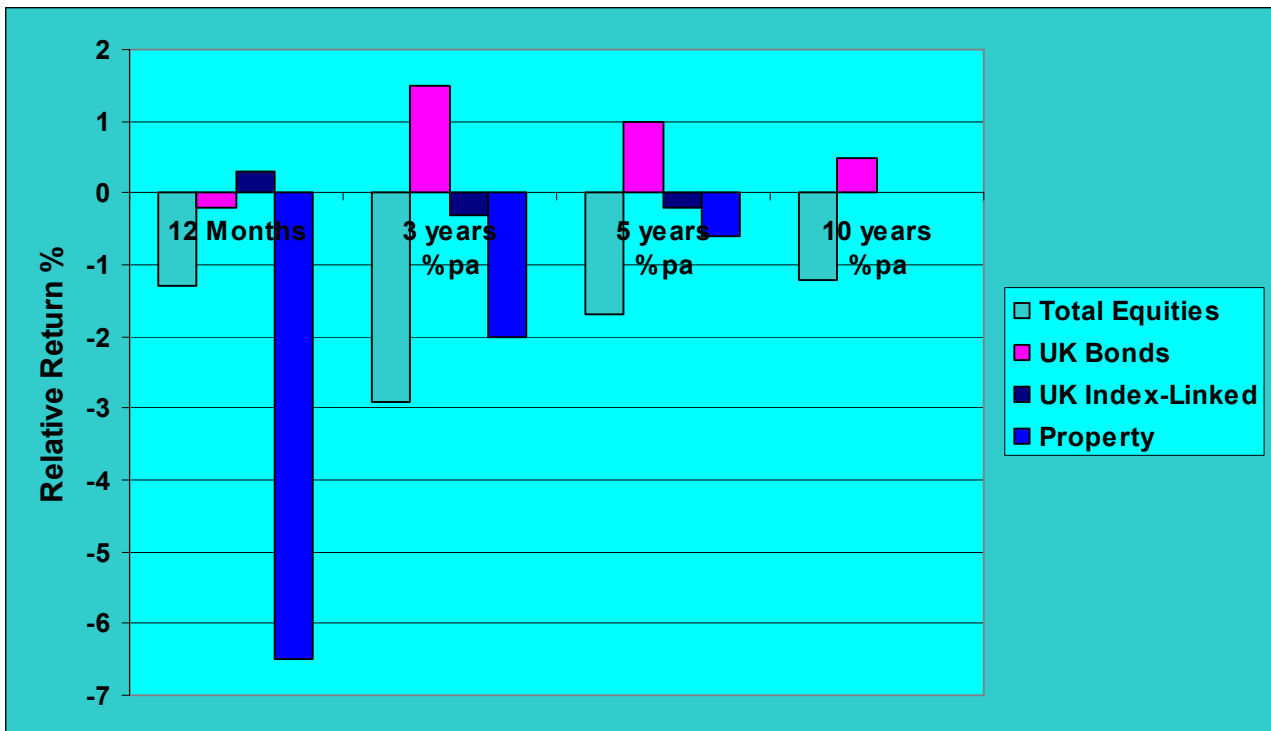


Source: WM Company

Performance Against Benchmark By Asset Class

The following table shows the performance against benchmark for each of the major asset classes and the chart shows the impact of that performance on the total fund performance.

		12 Months	3 years % pa	5 years % pa	10 years % pa
Total Equities	Fund	46.4	2.1	8.4	2.4
	Benchmark	48.4	5.2	10.3	3.7
	Relative Return	-1.3	-2.9	-1.7	-1.2
Total Bonds	Fund	16.2	8.8	6.9	5.8
	Benchmark	16.5	7.2	5.9	5.3
	Relative Return	-0.2	1.5	1.0	0.5
UK Index-Linked	Fund	10.7	7.0	6.5	5.9
	Benchmark	10.4	7.3	6.7	5.9
	Relative Return	0.3	-0.3	-0.2	0.0
Property	Fund	8.8	-10.0	1.0	6.5
	Benchmark	16.3	-8.2	1.6	6.5
	Relative Return	-6.5	-2.0	-0.6	0.0



Source: WM Company

TOP 20 EQUITY HOLDINGS

Stock	Market Value at 31 March 2010
MERCK & CO	4,654,211.61
WELLS FARGO	4,063,327.32
VODAFONE GROUP	3,684,905.60
GOLDMAN SACHS GROUP	3,596,345.76
CISCO SYSTEMS	3,588,069.60
MICROSOFT	3,190,032.45
APPLE	3,089,959.24
EXXON MOBIL	3,057,748.02
ALTRIA GROUP	3,019,536.85
SPRINT NEXTEL	2,963,050.53
JPMORGAN CHASE & CO	2,897,172.30
TRANSOCEAN LTD	2,891,222.77
PROCTER & GAMBLE	2,741,252.73
ROCHE	2,703,807.18
BAYER AG	2,633,753.06
PFIZER	2,587,288.15
GOOGLE	2,515,223.78
BB&T	2,432,471.88
DEVON ENERGY	2,348,515.73
UNION PACIFIC	2,331,692.84

Membership of External Bodies

National Association of Pension Funds (NAPF)

The NAPF is a leading voice of workplace pensions in the UK. They represent 1,200 pension schemes with some 1.5 million members and assets of around £800 billion.

Contact Details

NAPF Ltd
Cheapside House
138 Cheapside
London EC2V 6AE

Email: napf@napf.co.uk

Website: <http://www.napf.co.uk>

Local Authority Pension Fund Forum (LAPFF)

LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting **corporate social responsibility** and **high standards of corporate governance** amongst the companies in which they invest.

Formed in 1990, the LAPFF Forum brings together a diverse range of local authority pension funds with combined assets of over £80 billion.

Contact Details

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LAPF Forum
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Keith Bray
Forum Officer
LAPF Forum
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Website: <http://www.lapfforum.org/>

SCHEME ADMINISTRATION REPORT

FINANCE DIRECTOR'S REPORT



Following the economic downturn in 2008/09 which saw the pension fund's assets decrease by 20.9%, the Fund recovered significantly in 2009/10. However, the fund return of 30.7% was slightly lower than that of the average local authority fund.

It was another demanding year for the Pensions Advisory Panel. Due mainly to concerns over performance of one of the fund managers the decision was made to bring forward the investment review to before the completion of the Asset Liability Modelling. During the coming year both of these will be completed, with decisions being made regarding new asset classes if deemed appropriate. The Pensions Advisory Panel continued to closely monitor the investment performance and administration of the Fund, in conjunction with the Fund's investment advisers.

There are further challenges facing the Fund in the next few years. In particular, the 2010 actuarial valuation is now underway. We are working with our actuaries to ensure that contributions are kept at an affordable level whilst maintaining a robust funding strategy and to protect member interests.

We are confident that we are well positioned to meet the increasing challenges facing the Fund in both the short and long term and will need to ensure that we have the proper resources and strategies in place to meet these challenges.

Duncan Whitfield
November 2010

CHAIR OF PENSIONS ADVISORY PANEL REPORT



The past three years have seen huge turbulence on the worlds' stock markets and this has inevitably impacted the value of the Pension Fund's investments in the short-term.

The Pension Panel comprising senior Members of the Council, officers and trades union representatives has taken a long-term view on the investments within the fund and we deliberately did not "sell at the bottom" or have a knee-jerk reaction to short-term reductions in value as markets are inevitably cyclical and the investments in the fund are carefully selected.

Based on advice from our pensions consultants there is a solid basis for transition towards the scheme being fully funded within the government-mandated timescale, and at present more money flows into the scheme than is being paid out.

The Panel, now under the Chairmanship of Cllr Richard Livingstone, continues to meet regularly to ensure the best possible performance for you, the scheme's members.

Tim

Cllr Tim McNally FRSA FRI FBCS CIPF
Executive Member for Resources & Chair of the Panel 2008-2010

Review of Administration

Arrangements for Scheme Member & Pensioner Administration

Pension benefit administration is carried out by Pensions Services which is an internal business unit within Southwark's HR service. Administration is run differently in London than in the rest of the country as each London Borough is both the administering authority and the employing authority. As such, Pensions Services acts in both these roles at the same time. There are a number of Scheme employers within the Southwark fund consisting of admission agreements and scheduled bodies, for members in these arrangements it is their employer that is responsible for employer decisions, etc.

There is another group of members who work in Southwark's schools who are employed and administered by Southwark but are not paid through Southwark's payroll system. This means that Pensions Services do not have direct access to contractual information that has relevance to pension membership. Pensions Services have to rely on the schools, admitted bodies and scheduled bodies to provide information on starters, leavers and amendments. Approximately one in five scheme members work in this group. Experience has shown that these bodies do not, generally, provide adequate or timely data so the confidence in the quality of data for those staff is not high. As a result, proportionately high levels of Pensions Services' resources are taken by this group of staff as they are more onerous to administer than staff on Southwark's payroll system.

The administration of the pension payments is also undertaken by Pensions Services and the payroll is run on the Council's SAP system. The service provides for twelve monthly payments each year with a payslip posted to home addresses.

Internal Dispute Resolution Procedure (IDRP)

IDRP is a two stage system with Stage 1 being considered by the Pensions Manager or an independent peer if the Pensions Manager has been responsible for the decision being appealed about. A notification of the right to access IDRP is included with any notification of decisions made by Pensions Services such as benefit notices. Experience shows that members are not inclined to accept the decision of the first stage and are generally referred to Stage 2. This stage is heard by either member of the Pensions Review Panel. In 2009/10 four cases have been managed with the original decision being upheld on all occasions.

Key Uses of Technology

Pensions Services have direct access to the payroll records of the majority of scheme's active members through the Payroll/HR module of the Council's main information system SAP. This allows for a monthly interface from SAP to the Council's Pensions Administration system AXISE. The interface makes a comparison of information on the two systems so that validation checks can be made to keep information up to date. Examples of such information are totalling pension contributions and picking up contractual changes such as changes in hours or grade. For members that are not paid through SAP, such as staff working in schools or for external bodies that have an admission agreement with the Council, Pensions Services have to rely on outside bodies to provide the data.

Pensions Services have the document imaging module of the AXISE system meaning that documents received are imaged and linked to the individual's AXISE record so that 'paperwork' is instantly available to caseworkers with no need to retain and find paper files when needed which also fits in well with the Council's 'paper-lite' policies. This imaging system went live within Pensions Services in 2003, since then over 738,000 pages of documents have been scanned within the office.

Members of the scheme can access a version of their own AXISE records over the internet which enables them to maintain an active link to their membership of the scheme. This access allows members that request a PIN number access code to check and, in some cases, amend details on the record and they may contact Pensions Services if they have any queries on the data held. As at 31 March 2010 Pensions Services have issued 1569 PIN numbers to members.

Scheme Administration Costs

Total Administration Cost for year	£907,000
Cost per scheme member	£49.00

Statement of the Actuary for the year ended 31 March 2010

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2009/10 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £756.7M) covering 82% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the Fund's assets, along with additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used to reflect higher price inflation expectations and longevity improvements.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 was as set out below:
 - 14.5% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 6.4% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 18 years from 1 April 2008.

Less

- 3.2% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
- Changes were made consistent with the Finance Act 2004.
- A new scheme has been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

The cost of future benefit promises had increased compared with the costs identified in the previous valuation. This was due to the combined impact of benefit changes, changes in economic conditions and increased life expectancy.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

The rates of contributions payable by each participating Employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 28 March 2008 which is appended to our report of the same date on the actuarial valuation.

If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the cessation of the allowance for assumed additional short term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is currently being carried out as at 31 March 2010 with contribution rates changing with effect from 1 April 2011 (see point 7 below).

5. The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.

6. The main actuarial assumptions were as follows:

Discount rate for periods

In service

Admitted Bodies	6.2% a year
Scheduled Bodies	6.2% a year

Left service

Admitted Bodies:	5.2% a year
Scheduled Bodies:	6.2% a year

Short term investment returns until 1 April 2011

Equity/property assets	7.2% a year
Other investments	5.2% a year

Rate of general pay increases 4.7% a year

Rate of increases to pensions in payment 3.2% a year

Valuation of assets market value

7. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2010 which is currently being carried out. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2011 to 31 March 2014 are required by the Regulations to be signed off by 31 March 2011.

8. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited, for inclusion in the accounts of the London Borough of Southwark. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, the London Borough of Southwark, in respect of this statement.

Hewitt Associates Limited
June 2010

GOVERNANCE COMPLIANCE STATEMENT

Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities to prepare and maintain a separate written statement on governance policy on pension fund matters. The Department for Communities and Local Government (DCLG) has published draft regulations requiring pension funds to report on their governance arrangements against a set of best practice principles. Where a pension fund's compliance does not meet the required standards there is a requirement to explain, within the governance compliance statement, the reasons for not complying.

The Governance Compliance Statement sets out the following:

- Arrangements for delegation of decisions regarding the administration of the Pension Fund
- Terms, structure and procedures for the delegation
- Frequency of meetings
- Representatives on such a committee
- Extent of compliance with the guidance given in the above regulations

The compliance principles are not mandatory but are considered best practice.

The London Borough of Southwark Pension Fund's Governance Compliance Statement is attached at Appendix 4 of this report.

Governance Structure

The London Borough of Southwark, in its role as administering authority, has executive responsibility for the Fund. The Pensions Advisory Panel consider all matters relating to the management and administration of the Fund and make recommendations to the Finance Director on actions to be taken.

PENSIONS ADVISORY PANEL

Terms of Reference

The primary objective of the Pensions Advisory Panel is to assist the Finance Director in the management of the pensions function within the Council. This will include the provision of advice on the following:

- Establishing and reviewing the strategic investment objectives.
- Reviewing the definition of the investment return target most likely to satisfy these investment objectives.
- Determining what constraints, if any, should be applied to the invested assets and monitoring compliance.
- Establishing and reviewing the strategic asset allocation that is likely to meet the investment return target.
- Considering and reviewing the appropriateness of the fund structure
 - including the delegation of powers to managers, setting boundaries within which managers can exercise discretion and considering what manager return targets are likely to achieve the investment return target.
- Considering the results of the actuarial valuations and agreeing contribution levels.
- Reviewing and advising on the results of asset/liability studies.
- Monitoring the performance of the investment managers at least once every three months and considering the desirability of continuing or terminating their appointment from time to time. In monitoring the performance of investment managers the panel should consider:
 - investments made by managers
 - their input to the process and the value of their advice
 - investment returns and risks compared to established targets
 - manager compliance with the fund's requirements
 - discussion of results with managers

- Considering policy matters relating to the pension scheme and the Council's early retirement policy
- Considering applications, from outside bodies, for membership of the Council's pension scheme
- Monitoring of early retirements
- Monitoring the costs incurred in administering the pension scheme, including:
 - management and other direct costs
 - transaction (dealing) costs
- Reviewing and revising the Statement of Investment Principles and the Funding Strategy Statement
- Ensuring that the way the Fund is administered takes into account any changes to the Statement of Investment Principles or the Funding Strategy Statement.
- Agreeing on the supply of information to and from the participating employers.
- Complying with data protection regulations relating to the Fund.
- Ensuring the custodian arrangements for the Fund is satisfactory.
- Agreeing the arrangements for the appointment of Fund advisors i.e. accountant, actuary, lawyer and banker.

Membership and Voting Rights of the Panel

The membership of the panel will consist of:

- 3 members (1 from each party group) who have received the appropriate training – one of those members will chair the panel;
- 3 officers (the Finance Director, an officer with specialist knowledge of the pensions scheme and the Head of Human Resources);
- 2 independent advisors (non-voting); and
- a representative appointed by the relevant trade unions representing beneficiaries (non-voting).

Decision Making Protocol

- The panel should aim to reach consensus in decision-making. Where agreement cannot be reached a majority vote will apply. Voting rights are restricted to Members and officers, with the Chair having the casting vote if required.
- Decisions of the Panel will be treated as advice to the Finance Director.
- For decisions to be valid at least three voting members of the Panel must be present plus at least one independent advisor. At least one of the voting members must be an officer.
- Panel members will receive training and guidance on all matters requiring a decision prior to meetings where these issues are on the agenda.
- The Finance Director will submit a report to the Panel on all matters where he has been unable or unwilling to implement the decisions of the Panel.

Pensions Advisory Panel – 2009/10

The following table lists the membership of the Pensions Advisory Panel during the year, the voting rights of each member and their attendance at Panel meetings:

		Voting Rights	Meeting Attendance 2009/10			
			3 rd August 2009	14 th Sept 2009	8 th February 2010	30 th March 2010
Toby Eckersley	Elected Member	yes	✓	✓	✓	✓
Tim McNally (Chair)	Elected Member	yes	✓	✓	✓	✓
Fiona Colley	Elected Member	yes	✓	✓	✓	✓
Duncan Whitfield	Finance Director		✓	x	x	✓
Dave Howes	Assistant Finance Director	yes	✓	✓	✓	✓
Bernard Nawrat	Head of Personnel	yes	x	x	x	x
Euan Cameron	Unison	no	✓	x	x	✓
Roy Fielding	GMB	no	✓	x	✓	✓
Graham Wood	WM Company	no	✓	✓	✓	✓
Emily McGuire/ Matthew Abbott	Hewitt	no	✓	✓	✓	✓

Training Received by Pensions Advisory Panel – 2009/10

The training needs are covered at each of the quarterly meetings. Training is provided by the Fund's external advisers and fund managers as the need arises. Examples of training received during the year are as follows:

- Asset Liability Modelling & Setting a Long Term Investment Strategy – paper and training provided by advisers
- Diversified Growth Funds – training provided by advisers and presentation from a fund manager

PENSION FUND ACCOUNT

	2009/10	2008/09
<i>Note</i>	£000	£000
Dealings with members, employers and others directly involved in the scheme		Restated
Contributions receivable		
From employers (including admitted bodies)		
- Normal	6.1 (29,283)	(26,369)
- Deficit funding	6.1 (5,079)	(3,130)
- Augmentations	6.1 (121)	(439)
From Members (including admitted bodies)	6.1 (11,027)	(10,867)
Transfers in (individual)	(4,652)	(5,359)
Other income		
Deficit settlement (on closure of admitted body)	0	0
Other income	(138)	(89)
Total income	(50,300)	(46,253)
Benefits payable		
Pensions	6.3 29,804	27,499
Lump sums - retirement benefits	6.3 7,422	5,399
Commutation of Pension to Lump Sum benefits	0	0
Lump sums – death benefits	6.3 528	569
Payments to and on account of leavers		
State Scheme Premium	7	0
Refunds of contributions	6.1 6	6
Purchased Annuities	0	0
Group transfers out to other schemes	0	0
Individual transfers out to other schemes	6,958	3,865
Administrative expenses borne by the scheme	7.1 907	796
Total expenditure	45,632	38,134
Net addition from dealing with members of the fund	(4,668)	(8,119)
Returns on investments		
Investment income		
Income from fixed Interest Securities	0.00	0.00
Dividends from equities	(6,788)	(8,597)
Income from index linked securities	0.00	0.00
Income from pooled investment vehicles	(1,851)	(2,052)
Net rent from properties	(4,704)	(4,665)
Interest on cash deposits	(147)	(432)
Derivatives	658	(657)
Other income	(119)	(177)
Change in market value of investments	9.2 (174,590)	174,028
Taxation	2.5 0	0
Investment management expenses	3,648	3,287
Net returns on investments	(183,893)	160,735
Net (increase)/decrease in the Fund for the year	(188,561)	152,616
Opening net assets of the scheme	(598,205)	(750,821)
Closing net assets of the scheme	(786,766)	(598,205)

PENSION FUND NET ASSETS STATEMENT

	Notes	2009/10 £000	2008/09 £000
Investment assets			Restated
Fixed Interest Securities – UK public sector		20,080	13,524
Fixed Interest Securities – UK quoted		86,745	65,408
UK Equities		28,398	16,618
Overseas Equities		296,653	219,981
Index linked securities		61,608	49,414
Managed Funds – Property (Freehold)		54,655	45,630
Managed Funds – Property (Leasehold)		7,200	7,350
Unit Trusts – Property		57,905	52,723
Unit Trusts – Other		157,367	109,026
Derivatives – FTSE Futures		0	943
Derivatives – forward currency		0	107
Cash Deposits	9.6	4,230	9,510
Adjustment arising from change in valuation basis in 08/09			(1,194)
Total investment assets		774,841	589,040
Investment Liabilities			
Derivatives Forward Currency		(15)	0
Net Investment Assets		774,826	589,040
Net Current Assets and Liabilities			
Cash held at managers		5,623	4,635
Debtors		2,388	1,531
Creditors		(797)	(900)
Cash held at Council		4,726	3,899
Total Current Assets		11,940	9,165
Closing net assets of the scheme		786,766	598,205

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period ending 31 March 2010.

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

- 1.1. The Pension Fund is used to provide benefits for former employees of the Council and other admitted organisations, and dependent on the circumstances provides retirement pensions, widows' pensions, death grants and lump sum payments.
- 1.2. The Pension Fund Accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the Director of Finance on the recommendation of the Pensions Advisory Panel.

2. OPERATION AND MEMBERSHIP OF THE FUND

- 2.1. Employees pay contribution rates to the Fund determined by salary bandings. Southwark Council employees paid contributions in 2009/10 as follows:

Contribution Rate	2009/10	2008/09
%	£	£
5.25	0	265,578
5.5	266,016	2,779
5.8	26,159	13,119
5.9	365,275	306,927
6.0	0	26
6.5	2,029,198	1,959,381
6.8	3,089,823	3,039,859
7.2	2,398,988	2,503,379
7.5	278,201	326,468
TOTAL	8,453,660	8,417,516

- 2.2. The Council contributed 25.7% of pensionable pay. A one off payment of £4.64 million was made as a special contribution for early and ill health retirements. In addition, external bodies admitted to the Southwark Fund contributed a total of £2.33 million.
- 2.3. The Council is required to ensure that any surplus on the Pension Fund is invested. To ensure that the investment of the Fund is carried out to the best possible advantage, investment managers deal with the day to day investment of the Fund. Investments are managed by the following companies: Barclays Global Investors Ltd who manage an "indexed" portfolio of global equities and fixed and index linked gilts; Alliance Bernstein who manage two unconstrained global equities portfolios (one for growth and the other for value purposes); Newton Investment Management who also manage an unconstrained global equities portfolio; and Henderson Global Investors (who manage the property portfolio).
- 2.4. Barclays Global Investors was taken over by BlackRock on December 1 2009. There have been no changes to the investments held or the terms of the investment management agreement as a result.
- 2.5. Irrecoverable tax on dividends for 2009/10 was £186.60 (nil 2008/09)
- 2.6. The overall investment strategy is the responsibility of the Council. This responsibility is delegated to the Finance Director, taking account of the advice of the Pensions Advisory Panel.
- 2.7. At 31 March membership of the Fund was as follows:

	2009/10	2008/09
Number of contributors to the Fund	6,285	6,777
Number of contributors and dependants receiving allowances	6,164	6,002
Number of contributors who have deferred their pensions	6,062	5,752

3. ACCOUNTING POLICIES

General principles

- 3.1. The Pension Fund accounts summarise the transactions and net assets of the Pension Fund and are prepared on a going concern basis. They comply in all material respects with the provisions of Financial Reports of Pensions Schemes - A Statement of Recommended Practice (Revised May 2007), (SORP) and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2009.

Basis of preparation

- 3.2. The Pension Fund Account has been prepared on an accruals basis, except for transfer values which have been accounted for on a cash basis in accordance with the SORP.
- 3.3. Additional Voluntary Contributions (AVCs) are not included in the Pension Fund Accounts in accordance with the Pension Scheme (Management and Investment of Funds) Regulations 1998, section 5(2)(c).
- 3.4. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period ending 31 March 2010.

Investments

- 3.5. Investments are valued as follows:

- Equity investments and unit trusts at their market bid price on 31 March 2010.
- Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.
- End of year balances on foreign currency transactions have been translated at the exchange rate on 31 March 2010.
- Property assets have been included in the accounts at market value as at 31 March 2010. The valuation of direct property managed by Henderson Global Investors is carried out by Knight Frank LLP, the valuer is RICS qualified and the valuation took place on 31 March 2010.
- Investment assets have been valued and included in the accounts at bid price, except for direct property (freehold and leasehold) which have been valued at market value and derivative contracts which are valued on the basis of unrealised gains and losses.
- Unit Trust property has been included at net asset price except for Aberdeen Eurozone Funds which was valued using the February 28 2010 price, and Henderson Indirect Property Fund (Europe), for which the fund's manager has provided an "indicative value" which has been adopted in the portfolio valuation report.

- 3.6. The cost of acquisitions of investment assets including property is treated as revenue expenditure.
- 3.7. There are no significant restrictions affecting the ability of the scheme to realise its assets as at 31 March also at the values quoted, which have been verified by our custodian JP Morgan.

4. MANAGEMENT AND INVESTMENT OF FUNDS REGULATIONS

- 4.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 deal with the choice of investment managers, terms of their appointment, review of their performance, and the use and investment of pension fund money together with restrictions on such investments. In managing the Fund the investment manager must take into account:

- That Fund money must be invested in a wide variety of investments
- The suitability of those types of investment for the Fund
- The suitability of any particular investment of that type.

- 4.2. The Authority has to keep the investment managers' performance under review and at least once every three months review the investments made, and periodically consider whether or not to retain the manager.

- 4.3. In addition the administering Authority is under a duty to invest any Fund money not needed immediately to make payments, with power to vary those investments and a duty to formulate an investment policy with a view to:
- The advisability of investing Fund money in a wide variety of investments
 - The suitability of particular investments and types of investments.
- 4.4. In carrying out all the above functions, the Authority must obtain proper advice, at reasonable intervals, which is defined as the advice of a person who is reasonably believed by them to be qualified by his/her ability in, and practical experience of, financial matters (including any suitable officer of theirs).

5. ACTUARIAL POSITION OF THE FUND

- 5.1. The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.
- 5.2. The rates of contributions paid by the Council during 2009/10 were based on the actuarial valuation carried out as at 31 March 2007.
- 5.3. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £756.7 million) covering 82% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were, higher than expected investment returns on the Fund's assets, along with additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been offset by the impact of changes in the actuarial assumptions used to reflect higher price inflation expectations and longevity improvements.
- 5.4. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 should be:
- 14.5% of pensionable pay to meet the liabilities arising in respect of service after the valuation date
 - Plus 6.4% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 18 years from 1 April 2008
 - Less 3.2% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.
- 5.5. These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:
- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage
 - Changes were made consistent with the Finance Act 2004
 - A new scheme has been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.
- 5.6. The cost of future benefit promises had increased compared with the costs identified in the previous valuation. This was due to the combined impact of benefit changes, changes in economic conditions, and increased life expectancy.
- 5.7. The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Council as Administering Authority. If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the cessation of the allowance for assumed additional short term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010, with contribution rates changing with effect from 1 April 2011

5.8. The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement. The following actuarial assumptions have been used:

Discount rate for periods	
In service	
Admitted Bodies	6.2% pa
Scheduled Bodies	6.2% pa
Left service	
Admitted Bodies	5.2% pa
Scheduled Bodies	6.2% pa
Short term investment returns until 1 April 2011	
Equity/property assets	7.2% pa
Other investments	5.2% pa
Rate of general pay increases	4.7% pa
Rate of increases to pensions in payment	3.2% pa
Valuation of assets	market value

5.9. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2010, which is currently being carried out. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2010 to 31 March 2014 are required by the Regulations to be signed off by 31 March 2011.

5.10. Special contributions are paid for early retirements and ill health retirements, since the valuation assessment does not make any allowance for the extra liabilities arising from such retirements.

6. CONTRIBUTIONS RECEIVABLE AND BENEFITS PAYABLE

6.1. The total contributions receivable for 2009/10 are analysed as follows:

			2009/10	2008/09
	Employees	Employers	Total	Total
	£000	£000	£000	£000
Southwark Council	10,153	32,156	42,309	37,785
Admitted bodies	504	1,564	2,068	2,000
Scheduled bodies	364	763	1,127	1,026
Total	11,021	34,483	45,504	40,811

6.2. During 2009/10 employees made Additional Voluntary Contributions (AVCs) of £147,987 (£116,170 2008/09). AVCs are managed by external providers who invest them separately from the rest of the Pension Fund. The main AVC provider is Scottish Equitable, with Prudential being the provider for those employees who are members of the London Pension Fund Authority. AVCs are not included in the Pension Fund Accounts in accordance with the Pension Scheme (Management and Investment of Funds) Regulations 1998, section 5(2)(c). The value of the AVCs were at 31 March 2010 was £870,739 (£747,945 at 31 March 2009)

6.3. The total benefits payable for 2009/10 are analysed as follows:

			2009/10	2008/09
	Pensions	Lump sums	Total	Total
	£000	£000	£000	£000
Southwark Council	29,283	7,167	36,450	32,609
Admitted bodies	493	755	1,248	766
Scheduled bodies	28	28	56	92
Total	29,804	7,950	37,754	33,467

7. AUDIT COSTS

7.1. Audit costs form part of the Pension Fund's administrative expenses, and in 2009/10 they were £38,500 (£38,000 in 2008/09).

8. RELATED PARTY TRANSACTIONS

8.1. The Council is required to disclose details of its financial relationship with related third parties. This has been defined as where the related party has, or is perceived to have, real influence over any transaction between the parties. There were no related party transactions other than those disclosed elsewhere in the accounts.

8.2. Although there were no related party transactions, the Council recognises that the following bodies have a related party relationship with the Pension Fund -

- The Administering Authority
 - The London Borough of Southwark
- The Fund Managers:
 - BlackRock (formerly Barclays Global Investors Limited)
 - Henderson Global Investors
 - Alliance Bernstein
 - Newton Investment Management
- The Global Custodian
 - JP Morgan
- The following admitted bodies:
 - Borough Market
 - Southwark Law Centre
 - Fusion
 - Odyssey
 - PricewaterhouseCoopers
 - Centre for Literacy in Primary Education
 - South London Gallery
 - Shaftesbury Homes
 - APCOA
 - Charter Security
 - Chequers
 - Castle Day Centre
 - Olympic South
 - Morrison
 - St Mungo
 - Veolia
 - Camden Society
 - Leather Market
 - RSM Tenon
- The following scheduled bodies:
 - Academy at Peckham
 - Bacons College
 - Globe Academy
 - Harris Academy Bermondsey
 - Harris Girls Academy
 - Harris Boys Academy
 - St Michaels & All Angels CE Academy
 - Walworth Academy
- The Pension Fund Advisory Panel

9. OTHER INFORMATION

9.1. The market value of assets (including cash and accruals) managed by the investment managers at the balance sheet date was:

	£m	Percentage of Assets
BlackRock (formerly Barclays Global Investors)	433.81	55.55%
Alliance Bernstein (Growth)	81.67	10.46%
Alliance Bernstein (Value)	73.00	9.35%
Newton Investment Management	67.66	8.66%
Henderson Global Investors	124.85	15.98%
Total	780.99	100.00%

9.2. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.

	Value at 31/3/09 £m	Purchases £m	Sales £m	Gains/ (losses) £m	Cash movement £m	Value at 31/3/10 £m
Fixed Interest:						
UK public sector	13.52	7.73	(1.19)	0.02	0.00	20.08
UK quoted	65.41	7.43	0.00	13.90	0.00	86.74
UK Equities	16.62	16.89	(14.51)	9.40	0.00	28.40
Overseas Equities	219.98	167.13	(177.65)	87.19	0.00	296.65
Index linked Securities	49.41	10.03	(3.59)	5.76	0.00	61.61
Managed Funds:						
Property (freehold)	45.63	4.90	(1.28)	5.41	0.00	54.66
Property (leasehold)	7.35	0.00	0.00	(0.15)	0.00	7.20
Unit Trusts - Property	52.72	9.27	(2.48)	(1.60)	0.00	57.91
Unit Trusts – Other	109.03	0.00	(6.12)	54.45	0.00	157.36
Derivatives:						
FTSE Futures	0.94	0.00	0.00	(0.94)	0.00	0.00
Forward currency	0.11	0.00	0.00	0.00	(0.12)	(0.01)
Cash Deposits	9.51	0.00	0.00	0.00	(5.28)	4.23
Adjustment arising from change in valuation basis 08/09	(1.19)	0.00	0.00	1.19	0.00	0.00
Total Net Investment Assets	589.04	223.38	(206.82)	174.63	(5.40)	774.83
Cash held at managers	4.64	0.28	(0.23)	(0.04)	0.98	5.63
Investment Debtors	0.88	0.00	0.00	0.00	(0.35)	0.53
Total Net Investments	594.56	223.66	(207.05)	174.59	(4.77)	780.99

- 9.3. The Pension Fund does not hold derivatives as a main asset class, but they are used by our active fund managers to hedge the currency risk of holding global equities. Any FTSE futures are always held to equitise cash to ensure that they are always 100% invested in the equity market. The currency forward contracts are traded over the counter and the FTSE futures are exchange traded.
- 9.4. The total amount of direct transaction cost on all investment types was £1.684 million (split between equities £0.350 million and property £1.334 million).
- 9.5. The valuation of direct property managed by Henderson Global Investors is carried out by Knight Frank LLP, the valuer is RICS qualified and the valuation took place on 31 March 2010. All properties have been valued at market value.
- 9.6. Cash deposits as at 31 March 2010 were £4.23 million, (£9.5m at March 2009) all with Henderson Global Investors. This holding was reduced from that previously held due mainly to the purchase of a direct property in March 2010 at a cost of £9.26 million. Henderson's strategy is to continue to look for the right opportunities to invest in within the property market, thereby reducing cash holdings in the long term.
- 9.7. Stock lending is allowed under investment agreements within statutory limits. The Fund participates in a stock lending programme, which is managed by the global custodian, JP Morgan. £2.60 million of stock was lent out as at 31 March 2010, the collateral for this held in a combination of European government bonds and US cash.
- 9.8. A Statement of Investment Principles has been prepared and is available on the Council's website at http://www.southwark.gov.uk/download/1204/pension_fund_annual_report_20082009, or on request from the Finance Director, 160 Tooley Street, London SE1 2TZ.

10. EVENTS AFTER THE BALANCE SHEET DATE

Change in Fund Manager Arrangements

- 10.1. On 4 August 2010, Alliance Bernstein ceased managing the growth and value portfolios on behalf of the pension fund (see note 8.1 for details of funds held as at 31 March 2010). The funds remain with Alliance Bernstein pending the finalisation of alternative investment arrangements. The table below shows the estimated value of the funds as at 4 August 2010.

Fund	Value at 4/8/10 £m	Value at 31/3/10 £m
Growth Fund	66.40	81.67
Value Fund	73.10	73.00
Total	139.50	154.67

10.2 Change in the calculation of Pension Increases

On 22 June 2010, the Chancellor announced in his emergency budget that from April 2010, increases to the public sector pensions would be linked to the consumer prices index (CPI) rather than the retail prices index (RPI) that is currently used.

STATEMENT OF RESPONSIBILITIES

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the statement of accounts.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Director of Finance 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 on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Duncan Whitfield
30 September 2010

AUDITOR'S REPORT

Independent auditor's report to the Members of London Borough of Southwark Pension Fund

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Southwark in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Finance Director and auditor

The Finance Director is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Finance Director is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises Management and Financial Performance Report and Investment Policy & Performance Report.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the

Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Susan M Exton
District Auditor
Officer of the Audit Commission

Audit Commission
1st Floor, Millbank Tower
Millbank
London SW1P 4HQ

30 November 2010

IMPLEMENTATION OF FUNDING STRATEGY STATEMENT

Introduction

All LGPS funds are required to prepare and maintain a Funding Strategy Statement (FSS) in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008.

The Funding Strategy Statement of the London Borough of Southwark Pension Fund is attached as Appendix 5 of this report.

Implementation and Review

The FSS is reviewed formally at least every 3 years following each triennial actuarial valuation of the Fund. The valuation exercise will establish contributions for all employers contributing to the Fund for the following 3 years within the framework provided by the strategy.

The Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Fund membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employers to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Fund.

The authority carries out detailed monitoring of investment performance on a quarterly basis via its Pensions Advisory Panel. This includes monitoring of investment performance relative to the growth in the liabilities by means of quarterly funding updates provided by the actuaries.

Discussions take place at regular intervals with the Actuary as to whether any significant changes have arisen which require immediate action.

The investment strategy review that normally takes place following the triennial actuarial valuation was brought forward. This was in response to performance concerns with Alliance Bernstein. Hewitt conducted an asset liability study in which they identified the optimal asset allocation for the Fund. This was considered by the Pensions Advisory Panel and will be ongoing into 2010/11.

IMPLEMENTATION OF STATEMENT OF INVESTMENT PRINCIPLES

Statement of Investment Principles – 2009/10

A Statement of Investment Principles details the policy which controls how a pension fund invests. Local Government Pension Schemes have been required by law to keep an up-to-date Statement of Investment Principles since 1999.

The Statement of Investment Principles must cover our policy on matters such as:

- The types of investments held
- The balance between different types of investments
- The expected return on investments
- The extent to which social, ethical or environmental considerations affect investments

The Statement of Investment Principles for the London Borough of Southwark Pension Fund is attached at Appendix 6 of this report.

Implementation of Statement of Investment Principles - 2008/09

- Strategy Review: asset liability modelling brought forward to before triennial actuarial valuation. Advice given to Pensions Advisory Panel on optimal asset allocation.
- Engagement and Voting Policies:
 - Monitoring of fund managers' quarterly reports to ensure that engagement with companies the Fund invests in is consistent with the Fund's policy.
 - Monitoring the voting activity of the fund managers' to ensure consistency with the recommendations made by the Local Authority Pension Fund Forum
- Review of compliance with Myners Principles

The Statement of Investment Principles was formally reviewed by the Pensions Advisory Panel in April 2009.

APPLICATION OF COMMUNICATIONS POLICY STATEMENT

The Local Government Pension Scheme was subject to some major changes on 1 April 2008 affecting the amount of contributions members made to the scheme and the benefits they receive in return. The Annual Benefit Statements for 2008/09 was the first one that included predicted benefits on the split basis which needed more figures within the statement making it potentially more difficult to understand. The included newsletter had a brief explanation of how the benefits are worked out and illustrated the options members have when they retire to increase the value of their tax-free lump sum.

The newsletter also updated members that the earliest retirement age would change from 50 to 55 in April 2010, a reminder of who is covered for survivor's pensions and how to nominate someone to receive death benefits if they had a co-habiting partner.

Pensions Services maintain a presence on Southwark's main website which provides a link for all members, not just actives, to their pension arrangements and it enables them to get a secure access to their personal details held on a copy of the main pensions administration system to view and in some cases change the information held about them.

The Council's AVC partner, Scottish Equitable, ran some workshops in conjunction with Pensions Services to cover both AVCs and the Local Government Pension Scheme. These 'road shows' took place in October 2009.

The Pensions Services Communication Policy Statement is attached at Appendix 7.

FURTHER INFORMATION

Queries regarding the Fund's Investments & Accounts

Dave Howes
Assistant Finance Director
Telephone: 020 7525 4314
E-mail: dave.howes@southwark.gov.uk

Queries on Benefits or Costs of Membership

Malcolm Laird
Pensions Administration Manager
Telephone: 020 7525 4915
E-mail: malcolm.laird@southwark.gov.uk

Or you can write to us at:

London Borough of Southwark Pension Fund
Finance and Resources,
Pensions Investments
PO BOX 64529
London SE1P 5LX

External Sources of Information

The Pensions Regulator

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW

Telephone: 0870 606 3636
Website: www.thepensionsregulator.gov.uk

Pension Tracing Service

The Pensions Service
Tyneview Park
Whitley Road
Newcastle-Upon-Tyne
NE98 1BA
Telephone: 0845 600 2537

The Pensions Tracing Service can help ex-members of Pension Schemes, who may have lost touch with previous employers, to trace their pension entitlements.

GLOSSARY OF PENSION TERMS

Actuary

An independent consultant who advises the Fund and reviews the financial position of the Fund every three years. The actuary then produces a report, known as the actuarial valuation report, which compares the Fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

Added Years

Additional service that a member of the Fund can buy by paying extra contributions to the Fund providing that Inland Revenue limits on pension and contributions are not exceeded.

Additional Voluntary Contributions (AVCs)

An option available to individual members to secure additional pension benefits by making regular payments to the Pension Fund's AVC provider up to a maximum of 15% of total earnings.

Asset Allocation

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

Asset Class

A collective term for investments of a similar type. The main asset classes are equities (shares), bonds, cash and property.

Basis Point

One hundredth of 1% (i.e. 0.01%).

Benchmark

A yardstick against which the investment policy of performance of a fund manager can be compared. Asset allocation benchmarks vary from peer group (e.g. the average fund as measured by one of the performance surveys) to customized benchmarks tailored to a particular fund's requirements.

Cash Transfer Values

The capital value of a benefit entitlement paid into or withdrawn from the Fund when an employee joins or leaves the scheme with a pension transfer.

Corporate Bond

Strictly speaking, corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments in their own currencies. Therefore the 'credit' sector, as it is often known, includes issues by companies, supranational organisations and government agencies.

Custody

Administering of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income, process tax reclaims and provide other services, according to client instructions. The custodian physically holds the securities for safe-keeping

Deferred Pension

The pension benefit payable from Normal Retirement Age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age.

Defined Benefit Scheme

A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

Diversification

The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce risk.

Emerging Markets

Stock Markets in developing countries (as defined by the World Bank).

Equities

Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Final Pensionable Pay

Pensionable Pay earned in the last 12 months before retirement (or any one of the previous two years if annual earnings in either of these years are higher).

Final Salary Scheme

A pension scheme that provides a pension and a lump sum benefit calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

Fixed Interest

An income stream which remains constant during the life of the asset, such as income derived from bonds, annuities and preference shares.

Fixed Interest Securities

Investments, mainly in government stocks, which guarantee a fixed rate of interest. Investments in government stocks represent 'loans' to Government which are repayable on a stated future date.

Index

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Mandate

The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark.

Market Value

The price at which an investment can be bought or sold at a given date.

Normal Retirement Age

Age 65 for both men and women but members whose age and membership, when combined, total 85 or more can retire at any time from age 60 without actuarial reduction.

Pensionable Pay

Basic pay excluding non-contractual overtime, bonus and shift payments.

Pooled Funds

Pooled Funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Return

The value received (income plus capital) annually from an investment, usually expressed as a percentage.

Unconstrained Equity Investing

Mandates where the investment manager is expected to construct and manage their portfolio of stocks in a way that reflects their judgment, without being hindered by limits sets relative to a benchmark index. The manager may also be free to invest a high proportion in cash if they have a negative view on equity markets. Generally, there would be few investment restrictions, although a mandate would rarely be totally unconstrained.

Unlisted Securities

Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

Valuation

A summary of an investment portfolio showing the holdings and their value as at a certain date.

APPENDIX 1: Participating Employers – Contributions by Band 2009/2010

Name	Total Employee Contributions	Total Employer Contributions	Total Contributions	5.25%	5.50%	5.80%	5.90%	6.00%	6.50%	6.80%	7.20%	7.50%
ADMITTED BODIES												
APCOA	2,684.36	9,174.76	11,859.12		2,684.36							
Borough Market	1,510.68	9,174.76	10,685.44						1,510.68			
Camden Society	61,318.83	185,491.61	246,810.44		1,630.79				46,640.15	13,047.89		
Charter Security	2,766.24	8,906.96	11,673.20						2,766.24			
Chequers	263.28	691.56	954.84		263.28							
CLPE	13,501.45	28,181.95	41,683.40				956.71		3,366.66	9,178.08		
Fusion	56,569.27	172,332.21	228,901.48		123.39	2,077.17	8,514.84	2.43	20,174.10	8,546.68	8,252.16	8,878.50
Southwark Law Centre	13,168.06	40,224.51	53,392.57							10,299.00	2,869.06	
Leather Market	12,377.16	34,133.09	46,510.25						34.41	5,315.99	7,026.76	
Morrisons	25,281.07	76,921.65	102,202.72		11,157.23				1,837.39	2,224.30	10,062.15	
Odyssey	71,574.58	105,268.71	176,843.29				761.88		14,647.05	55,706.91	458.74	
Olympic South	5,897.17	6,259.94	12,157.11						5,897.17			
PWC	2,904.47	10,143.45	13,047.92									2,904.47
Shaftesbury Homes	19,682.41	20,587.99	40,270.40				209.57		2,042.96	10,869.21	6,560.67	
South London Gallery	4,449.60	10,135.20	14,584.80								4,449.60	
St Mungos	861.11	2,431.35	3,292.46							861.11		
Together	5,673.93	17,791.93	23,465.86						3,394.09	2,279.84		
Veolia	203,067.42	614,027.59	817,095.01		49,744.08		1,767.11		135,220.06	13,184.90	3,151.27	
ADMITTED BODIES TOTAL	503,551.09	1,351,879.22	1,855,430.31	-	65,603.13	2,077.17	12,210.11	2.43	237,530.96	131,513.91	45,734.88	8,878.50
SCHEDULED BODIES												
Academy at Peckham	77,350.66	140,604.12	217,954.78		1,260.63	867.68	22,717.05		31,577.82	11,300.28	9,627.20	
Bacons College	77,065.24	182,681.71	259,746.95		2,358.62	699.80	12,140.49		22,946.61	27,386.41	6,033.88	5,499.43
Globe Academy	64,076.32	171,719.43	235,795.75		1,184.47	1,456.40	6,834.36		42,831.55	7,480.40	4,289.14	
Harris Academy Bermondsey	41,052.78	82,328.66	123,381.44		182.31		3,815.68		20,470.39	15,144.40	1,440.00	
Harris Girls Academy	20,955.39	45,766.61	66,722.00		1,417.32		2,571.54		10,237.13	2,432.40	4,297.00	
Harris Boys Academy	4,747.81	8,579.61	13,327.42			475.61	633.26		2,233.10	1,405.84		
St Michaels & All Angels CE Academy	35,784.75	77,699.97	113,484.72		463.13		2,256.47		26,365.29	2,198.05	4,501.81	
Walworth Academy	60,194.47	141,610.99	201,805.46				1,001.95	203.82	40,896.80	7,477.02	10,614.88	
SCHEDULED BODIES TOTAL	381,227.42	850,991.10	1,232,218.52	-	6,866.48	3,499.49	51,970.80	203.82	197,558.69	74,824.80	40,803.91	5,499.43

APPENDIX 2 – Pension Fund Risk Register

Risk Ref:	Risk Description	Risk Category	Impact – 1 to 10 (10 highest)	Likelihood – 1 to 10 (10 highest)	RISK SCORE	Risk Comments (Mitigation)
Pension 1	Poor investment performance could lead to a larger deficit and therefore a requirement for higher contributions.	Financial	7	8	82	1. Investments monitored daily. 2. Pensions Advisory Panel (PAP) reviews fund manager performance quarterly against benchmark. Reports received from investment advisers providing ratings of managers. 3. Regular meetings with fund managers re performance.
Pension 2	Asset/liability mismatch – assets could fail to rise at the same rate as liabilities resulting in a higher deficit.	Financial	7	8	82	1. Reports on the funding level produced by actuaries quarterly and reviewed by PAP. 2. Asset Liability Model produced following each triennial actuarial valuation. Determines optimal asset allocation for the Fund.
Pension 3	Inaccuracy of financial information – leading to qualification of accounts	Reputational	4	3	19	1. Accounting data reconciled on timely basis. 2. Fund manager valuations independently verified by Fund's custodian. 3. Accounts prepared in accordance with relevant regulatory codes.
Pension 4	Reliance on third party providers for investment management and custodial services – failure could have a serious financial impact on the Fund	Financial	7	6	69	Contracts regularly monitored. PAP provided with quarterly ratings on each manager. Where there are concerns additional monitoring is put in place to ensure financial risks are kept to an acceptable level. 3. Third parties provide Fund with an annual SAS70 report which provides assurance from their auditors that adequate financial controls are in place and are operating effectively.
Pension 5	Failure to comply with existing/new regulations – resulting in legal sanctions and detrimental effect on Council's reputation.	Legal & Regulatory	4	2	14	Monitoring of compliance with regulations. Use of external advisers with specialist knowledge to advise on implementation. Future changes to regulations could be detrimental to the Fund in terms of cost and resources.
Pension 6	Admitted/Scheduled Bodies – failure of body/deficits on termination of contracts – could lead to an increase in the Council's contributions	Financial	7	7	76	Funding levels monitored at each valuation. Contributions set at sufficient level to cover liabilities. 2. Financial risks monitored by contracting departments on a regular basis. 3. Monthly monitoring of contributions received. Actions taken to recover late payments. 4. Bonds in place and covenant checks commissioned where necessary. 5. Higher contribution rates set in years approaching end of contracts.

APPENDIX 3: Governance Policy Statement

Background

Recent amendments to the Local Government Pension Scheme Regulations 1997 require that an administering authority must prepare, maintain and publish a written statement setting out:

- (1) Whether the administering authority delegates the function in relation to maintaining a pension fund to a committee, a sub-committee or an officer;
- (2) The frequency of any committee or sub-committee meetings;
- (3) The terms of reference, structure and operational procedures of the delegation;
- (4) Whether the committee or sub-committee includes representatives of employing authorities or members.

The London Borough of Southwark Pension Fund covers each of these in the following ways:

(1) Arrangements for Maintaining a Pensions Fund Committee

Since 2004 this function has been delegated to the Pensions Advisory Panel, whose primary objective is to assist the Finance Director in the management of the Pensions function within the Council.

(2) Frequency of Meetings

The Pensions Advisory Panel meets once every quarter. Additional meetings are held where issues requiring urgent attention arise.

(3) Terms of Reference, Structure and Operational Procedures

The primary objective of the Pensions Advisory Panel is to provide advice to the Finance Director in the management of the Pension Fund. This will include the provision of advice on the following:

- Establishing and reviewing the strategic investment objectives.
- Reviewing the definition of the investment return target most likely to satisfy these investment objectives.
- Determining what constraints, if any, should be applied to the invested assets and monitoring compliance.
- Establishing and reviewing the strategic asset allocation that is likely to meet the investment return target.
- Considering and reviewing the appropriateness of the fund structure
 - including the delegation of powers to managers, setting boundaries within which managers can exercise discretion and considering what manager return targets are likely to achieve the investment return target.
- Considering the results of the actuarial valuations and agreeing contribution levels.
- Reviewing and advising on the results of asset/liability studies.
- Monitoring the performance of the investment managers at least once every three months and considering the desirability of continuing or terminating their appointment from time to time. In monitoring the performance of investment managers the panel should consider:
 - investments made by managers
 - their input to the process and the value of their advice
 - investment returns and risks compared to established targets
 - manager compliance with the fund's requirements
 - discussion of results with managers
- Considering policy matters relating to the pension scheme and the Council's early retirement policy
- Considering applications, from outside bodies, for membership of the Council's pension scheme

- Monitoring of early retirements
- Monitoring the costs incurred in administering the pension scheme, including:
 - management and other direct costs
 - transaction (dealing) costs
- Reviewing and revising the Statement of Investment Principles and the Funding Strategy Statement
- Ensuring that the way the Fund is administered takes into account any changes to the Statement of Investment Principles or the Funding Strategy Statement.
- Agreeing on the supply of information to and from the participating employers.
- Complying with data protection regulations relating to the Fund.
- Ensuring the custodian arrangements for the Fund are satisfactory.
- Agreeing the arrangements for the appointment of Fund advisors i.e. accountant, actuary, lawyer and banker.

Membership and Voting Rights of the Panel

The membership of the panel will consist of:

- 3 members (1 from each party group) who have received the appropriate training – one of those members will chair the panel;
- 3 officers (the Finance Director, an officer with specialist knowledge of the pensions scheme and the Head of Human Resources);
- 2 independent advisors (non-voting); and
- a representative appointed by the relevant trade unions representing beneficiaries (non-voting).

Decision Making Protocol

- The panel should aim to reach consensus in decision-making. Where agreement cannot be reached a majority vote will apply. Voting rights are restricted to Members and officers, with the Chair having the casting vote if required.
- Decisions of the Panel will be treated as advice to the Finance Director.
- For decisions to be valid at least three voting members of the Panel must be present plus at least one independent advisor. At least one of the voting members must be an officer.
- Panel members will receive training and guidance on all matters requiring a decision prior to meetings where these issues are on the agenda.
- The Finance Director will submit a report to the Panel on all matters where he has been unable or unwilling to implement the decisions of the Panel.

(4) Representation from Employing Authorities or Members

When deciding on the composition of the Pensions Advisory Panel, it was decided that as London Borough of Southwark represents the majority of the Fund membership, admitted bodies would not be included on the Panel. There are 19 admitted bodies in the Fund. Although they are not represented on the Panel, they are fully consulted on and kept informed of all decisions made by the Panel.

APPENDIX 4: Governance Compliance Statement

Introduction

On 30 June 2007 the LGPS regulations 1997 (as amended) requires LGPS administering authorities to measure their governance arrangements against the standards set out in this statutory guidance. Where compliance does not meet the published standard, there is a requirement under regulation 31(3) (c) to give, in their governance compliance statement, the reason for not complying.

The Principals

A - Structure

- a. The management of the administration of benefits and strategic management of the fund assets clearly rests with the main committee established by the appointed council.
- b. The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
- c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant*			Fully Compliant	
a)					√
b)				√	
c)					N/A
d)					N/A

- Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

When deciding on the composition of the Pensions Advisory Panel, it was decided that as the London Borough Southwark represents over 90% of the Fund membership, admitted bodies would not be included in the Panel. Although they are not represented on the panel, they are fully consulted on and kept informed of all decisions made by the Panel.
No secondary committee or panel exists.

B – Representation

- a. That all key stakeholders are afforded the opportunity to be represented, Within the main or secondary committee structure. These include:-
 - i) employing authorities (including non-scheme employers, e.g., admitted bodies);
 - ii) scheme members (including deferred and pensioner scheme members),
 - iii) where appropriate, independent professional observers, and
 - iv) expert advisors (on an ad-hoc basis).
- b. That where lay members sit on a main or secondary committee, they are Treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Not Compliant*			Fully Compliant	
a)				√	
b)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

When deciding on the composition of the Pensions Advisory Panel, it was decided that as the London Borough Southwark represents over 90% of the Fund membership, admitted bodies would not be included in the Panel. Although they are not represented on the panel, they are fully consulted on and kept informed of all decisions made by the Panel.

C – Selection and role of lay members

- a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.
- b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Not Compliant*			Fully Compliant	
a)					√
b)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

D – Voting

- a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	Not Compliant*			Fully Compliant	
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

E – Training/Facility time/Expenses

- a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.

- b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
- c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

	Not Compliant*			Fully Compliant	
a)				√	
b)					√
c)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

A policy on training exists, it is part of the terms of reference of the panel that members will have had training and be trained on all matters requiring a decision prior to meetings where these issues are on the agenda.

Annual training plans are being considered for the future.

F - Meetings (frequency/quorum)

- a. That an administering authority's main committee or committees meet at least quarterly.
- b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.
- c. That an administering authority that does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

	Not Compliant*			Fully Compliant	
a)					√
b)					N/A
c)					N/A

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

No secondary committee or panel.

H – Scope

- a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

	Not Compliant*			Fully Compliant	
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

I – Publicity

- a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

	Not Compliant*			Fully Compliant	
a)					√

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

APPENDIX 5: Funding Strategy Statement

Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations). The Statement describes London Borough of Southwark's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the London Borough of Southwark Pension Fund (the Fund).

As required by Regulation 76A (2), the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

Consultation

In accordance with Regulation 76A (1), all employers participating within the London Borough of Southwark Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations).

The Fund Actuary, Hewitt Associates, has also been consulted on the contents of this Statement.

Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

Aims of the Fund

The aims of the Fund are:

1. To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency,
- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see 4 below)

Producing low volatility in employer contribution rates requires material investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as stocks and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

2. To ensure that sufficient resources are available to meet all liabilities as they fall due.

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

3. To manage employers' liabilities effectively.

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Panel members are properly informed, and through regular monitoring of the funding position.

4. To maximise the income from investments within reasonable risk parameters.

The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

- Restricting investment to the levels permitted by the Investment Regulations.
- Restricting investment to asset classes generally recognised as appropriate for UK pension funds.
- Analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

Purpose of the Fund

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.
2. To receive monies in respect of contributions, transfer values and investment income.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Scheme Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

Individual employers must pay contributions in accordance with Regulations 79, 80 and 81 of the LGPS Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. This is monitored on a monthly basis and any unpaid monies are acted upon.

The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by

- requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement
- notifying the Admission Body that it must meet any deficit at the cessation of the Agreement.

2. Invest surplus monies in accordance with the regulations.

The Administering Authority will comply with Regulation 9 of the Investment Regulations.

3. Ensure that cash is available to meet liabilities as and when they fall due.

The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. Manage the valuation process in consultation with the Fund's actuary

The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and provision of valuation results
- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the Funding Strategy
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by Guidance and Regulation

5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. Monitor all aspects of the Fund's performance and funding and amend these two documents as required

The administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis. The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

Individual Employers will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
3. Exercise discretions within the regulatory framework.
4. Pay for added years in accordance with agreed arrangements.
5. Notify the administering authority promptly of all changes to membership, or other changes which affect future funding.

The Fund Actuary will:

1. Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.

Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Institute and Faculty of Actuaries, to the extent that the Guidance Note is relevant to the LGPS.

2. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Such advice will take account of the funding position and Strategy of the Fund, along with other relevant matters.

Solvency

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions.

'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available on long term fixed interest and index linked gilt edged investments. The Administering Authority has also agreed with the Fund Actuary that the assumptions will make partial allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement. It is unlikely that use of these smoothing adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example, an employer admitted by virtue of having been awarded a best value outsourcing contract).

Funding Strategy

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 30 years. The Administering Authority's policy is to agree recovery periods with each employer which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

Identification of risks and counter measures

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these before, and after they emerge, wherever possible. The main risks to the Fund are:

Demographic

The main risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

Regulatory

The risks relate to changes to regulations, National pension requirements or Inland Revenue rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial

This covers such items as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to regularly assess such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

Smoothing

The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. The Administering Authority's policy is to review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits to ensure that it does not alter the disclosed solvency level by more than 5%.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 30 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, to six annual steps.

Links to investment policy set out in the Statement of Investment Principles

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this Statement.

Refer to the attached Statement of Investment Principles for the London Borough of Southwark Pension Fund.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

Future monitoring

The Administering Authority plans to formally review this Statement as part of the triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Actuary whether any significant changes have arisen that require action.

APPENDIX 6: Statement of Investment Principles

Introduction

The Local Government Pension Scheme

The Local Government Pension Scheme exists to provide pensions and related benefits to its members. The Scheme is established by statute, and the classes of employee who are eligible to join the Scheme are listed in regulations. The benefits provided by the Scheme are defined in regulations, and are predominantly linked to members' pay and service at retirement or earlier exit from service.

London Borough of Southwark Pension Fund

The London Borough of Southwark Pension Fund is a scheme established in accordance with the regulations governing the Local Government Pension Scheme to provide pension and related benefits to employees of the London Borough of Southwark and any other eligible employees. The Fund is administered by the London Borough of Southwark.

Purpose of Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 and 2002 requires an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement of the principles governing their decisions about investments. The statement must cover their policy on:

- The types of investments to be held
- The balance between different types of investments
- Risk
- The expected return on investments
- The realisation of investments
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights), if any, attaching to investments
- The extent to which the authority complies with the 'CIPFA Pensions Panel Principles for Investment Decision Making in the LGPS in the UK (Guidance note Issue No 5) and the reasons for any non-compliance.

This statement sets out the principles governing decisions about the investment of the assets of the London Borough of Southwark Pension Fund (the Fund).

This statement is issued by the Fund Administering Authority to comply with Regulation 5 of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999.

Frequency of Review

The Authority's policy is to review this statement annually or sooner if there is a change in the policy on any of the areas covered by the statement. The Authority will consult with such persons as they consider appropriate and take advice when revising the statement.

Advice

The Authority has obtained written advice on the content of this statement from Hewitt Associates, the Fund's actuaries and investment consultants.

Consultation

The Authority consulted investment advisors, investment managers, custodians and the Council's Pensions Advisory Panel about the content of this statement.

Investment Powers

The investment powers of the Authority are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. This statement is consistent with those powers. Neither the statement nor the Regulations restrict the Authority's investment powers by requiring the consent of a third party.

The management of the Fund's investments has been delegated to professional investment managers whose activities are constrained by detailed Investment Management Agreements. These agreements include controls on stock lending, use of derivatives and underwriting.

Approval

The principles outlined in this document were approved by the Authority on 6th July 2000 and revised annually thereafter. They were last revised in April 2009.

GOVERNANCE

Decision making structure

The Authority is responsible for the investment of the Fund's assets. It takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Authority has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Authority has established the following decision making structure:

Authority

- Set structures and processes for carrying out their role
- Select and monitor planned asset allocation strategy
- Appoint Pensions Advisory Panel
- Consider recommendations from the PAP
- Putting in place a Statement of Investment Principles
- Monitoring compliance with the Statement and reviewing its contents
- Appointing Investment Managers, a global custodian, the actuary and the investment adviser

The Pensions Advisory Panel advises the Council on the above.

Pensions Advisory Panel (PAP)

- The primary objective of the PAP is to assist the Finance Director in the management of the pensions function within the Council. This will include the provision of advice on the following:
 - Establishing and reviewing the strategic investment objectives
 - Reviewing the definition of the investment return target most likely to satisfy these investment objectives
 - Determining what constraints, if any, should be applied to the invested assets and monitoring compliance
 - Establishing and reviewing the strategic asset allocation that is likely to meet the investment return target

- Considering and reviewing the appropriateness of the fund structure including the delegation of powers to managers, setting boundaries within which managers can exercise discretion and considering what manager return targets are likely to achieve the investment return target.
- Considering the results of the actuarial valuations and agreeing contribution levels
- Reviewing and advising on the results of asset-liability studies
- Monitoring the performance of the investment managers at least quarterly and considering the desirability of continuing or terminating their appointment from time to time.

Investment Adviser

- Advising the Pensions Advisory Panel on investment strategy
- Advising the Pensions Advisory Panel on this statement
- Advising on benchmarking issues
- Advising on and evaluating the investment manager and custodial tenders
- Monitoring the performance of the investment managers
- Attendance at all Pensions Advisory Panel meetings
- Ad-hoc investment issues that the Council does not have the knowledge or resources to resolve

Investment Managers

- Operate within the terms of this statement and their written contracts
- Select individual investments with regard to their suitability and diversification
- Provide the accounting data covering details of all investment transactions over the quarter
- Provide investment details in a timely manner to the Fund's benchmarking company (WM) for performance measurement purposes

Global Custodian

- Global Custody services are carried out by JP Morgan with the exception of property which is covered under a separate agreement with BNP Paribas
- This arrangement provides a separation of duties between the investment and the safekeeping of the assets
- The custodian is responsible for the safe custody of all securities, settlement of all investment transactions, collection of income, cash management, tax reclaims, corporate action administration, foreign exchange services, derivatives clearing and reporting on all movements within the Pension Fund.

Auditor

- The Fund is audited annually by the Audit Commission. The financial year end is 31st March.

FUNDING AND INVESTMENT POLICY

Regulations and the Link to Investment Strategy

Regulation 77 of the Local Government Pension Scheme Regulations 1997 requires the Actuary to set employer contribution rates to the Fund to secure its solvency having regard to the existing and prospective liabilities of the Fund and the desirability to maintain as constant a contribution rate as possible.

The value of the Fund at each successive valuation date is a major factor in determining the level of contribution rate, and the Authority's investment strategy for the Fund is therefore key to that process. This is intended to ensure that all statutory payments made from the Fund are at minimal cost to local taxpayers by investing to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined).

The Authority's policy is to:

- appoint expert fund managers with clear performance benchmarks and to place accountability for performance against the benchmark on the fund managers. Performance is reviewed quarterly by the PAP upon receipt of reports from WM, an independent performance measurement service.
- review investment strategy annually, with a major review taking place following the triennial actuarial valuation.

Investment Strategy and Expected Returns

Having considered advice from Hewitt Associates, the Authority believes that the investment strategy for the Fund, in conjunction with the certified levels of future contributions to the Fund, is consistent with the requirements of the Regulations. The financial position of the Fund will be considered each year and, if it changes significantly, the suitability of the investment strategy will be reviewed.

The current **asset allocation strategy** was set on 3rd October 2005 and reviewed in September 2008 to include corporate bonds. It is set out in the table below:

Asset Class	Weighting %
Passive Global Equities	30
Unconstrained Global Equities	30
Passive Gilts	10
Corporate Bonds	10
Active Property	20

This strategy was set following an asset-liability study and advice from the Authority's actuary and investment advisers. In carrying out the asset-liability study, the Authority's investment advisers modelled the Fund's assets and liabilities for a range of alternative asset allocation strategies. In choosing the Fund's planned asset allocation strategy it is the Authority's policy to consider:

- A full range of asset classes
- The risks and rewards of a range of alternative asset allocation strategies
- The suitability of each asset class
- The need for appropriate diversification

Certain alternative investments, such as private equity, have characteristics that cannot be modelled. Therefore decisions about their inclusion or exclusion were made using qualitative judgement.

Process for Choosing Investments

The Authority relies on professional fund managers for the day to day management of the majority of the Fund's assets. However, the Authority retains direct control over some investments. In particular, it makes the decisions about the investment vehicles used by members for additional voluntary contributions (AVCs).

Additional Voluntary Contributions

For members' Additional Voluntary Contributions (AVC), the Authority chooses suitable investment vehicles taking into account past performance, charging structure, flexibility and the quality of administration. The Authority current preferred AVC provider is Scottish Equitable. Some AVC investments are held by Equitable Life.

Investments Directly Controlled By the Authority

The Authority's policy is to review the investments over which it retains direct control and to obtain written advice about them annually. When deciding whether or not to make any new investments the Authority will obtain written advice.

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. The adviser will have the knowledge and experience required under section 36(6) of the Pensions Act.

IMPLEMENTATION

Investment Advisors

Hewitt Associates has been selected as investment adviser to the Authority and PAP. They operate under an agreement to provide a service designed to ensure that the PAP and the Authority are fully briefed both to take the decisions they take themselves and to monitor those they delegate.

Fund Managers

Each fund manager has been given investment objectives which are measured by comparing their performance over a given period against a benchmark. Details of each manager's investment objectives are provided in Appendix 1.

The fund managers are responsible for the allocation of assets between types of investment and for the selection of individual stocks within each type of investment. The fund managers are regulated by the Financial Services Authority (FSA). The Authority has a signed agreement with each fund manager.

Within the categories of investment permitted by the Regulations, the fund managers can purchase any new investments as long as they do not breach the provisions of their investment management agreements. The fund managers will bring to the Authority's attention any new category of investment which in their judgement has become suitable for the Fund before investing in that category.

The Authority expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

All the fund managers are remunerated on a percentage of fund basis. This structure has been chosen to align the fund managers' interests with those of the Fund.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets. The PAP receives reports from an external provider setting out all the costs of the investment of the Fund. They use these reports to ensure that the costs incurred are commensurate with the goods and services received.

Fund managers are monitored on a monthly basis and performance is monitored on a quarterly basis.

BALANCE BETWEEN TYPES OF INVESTMENT AND RISK

The following measures have been implemented to reduce the risks associated with making investments:

Number of Managers

The assets are divided between four fund managers (with five mandates in total) to reduce the risks associated with one fund manager having responsibility for all of the Fund's assets. In addition, this division enables the Authority to control the overall level of risk resulting from the differing styles and approaches of each manager.

Risk versus the Liabilities

The majority of the Fund's liabilities are linked to inflation and salary growth. The policy is therefore to invest the majority of the assets in investments which are expected to exceed price inflation and general salary growth over long periods.

Range of Assets

The benchmark contains a wide range of assets suitable for a pension scheme. The managers have discretion to move away from the benchmark position within specified tolerance levels to outperform the return on the benchmark. The PAP reviews the distribution of assets quarterly.

Manager Restrictions

The Authority's agreement on the way the portfolio is managed with each fund manager contains a series of restrictions which may be amended from time to time. The purpose of the restrictions is to limit the risks from each individual investment and prevent unsuitable investment activity. Each fund manager will comply with these restrictions

Manager Controls

Powers of investment delegated to the fund managers must be exercised with a view to giving effect to the principles contained in this statement so far as is reasonably practicable. The manager will also ensure that suitable internal operating procedures are in place to control individuals making investments for the Fund. Compliance with this statement will be continually monitored by the authority.

REALISATION OF INVESTMENTS

The fund managers will bring to the Authority's attention any category of investment held by the Fund which in their judgement has become unsuitable for the Fund. The fund manager is not expected to bring to the Authority's attention individual investments realised on purely investment grounds.

SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

Policy on Engagement

The Council is committed to the development of a positive, practical, sustainable policy on Socially Responsible Investment (SRI). As for all fund investments, this is subject to being in the best interests of the beneficiaries and contributors. In respect of shareholder value social, environmental and ethical considerations are among the factors managers are requested to take into account when selecting investments.

A schedule is maintained of all companies in which the fund managers are investing. This schedule is updated each quarter and any companies where corporate governance concerns have been expressed will be identified.

Managers provide quarterly reports detailing the implementation of the Fund's Statement of Investment Principles (SIP). The reports outline all engagement with companies during the previous quarter and would enable an assessment to be made of their success in achieving fund policy. Fund managers will be kept informed of the Council's key themes at all times and will be expected to specifically engage with companies where Local Authority Pension Fund Forum (LAPFF) has identified corporate governance concerns.

The Council believes that proactive engagement with the companies in which the Fund invests is the most effective means of achieving the above objectives.

While preferring an active engagement strategy, the Council reserves the right to actively screen any companies. It also reserves the right within its active managers' Investment Management Agreements (IMA) to reject investments in companies which the Pensions Advisory Panel (PAP), believes are working against the Council's key themes, in agreement with the Finance Director, having regards to the best interests of the beneficiaries and contributors.

CORPORATE GOVERNANCE

The Fund exercises the voting rights attached to its investments wherever it is possible and cost effective to do so. The aim is to promote and support good corporate governance principles and best practice. Voting rights should be exercised in accordance with the best financial interests of both the beneficiaries and contributors to the Fund. Social, environmental and ethical considerations may be taken into account when exercising votes where this acts in these parties' best interests,

The Council has instructed its Fund managers to vote in accordance with their house policies and practices, whilst also taking into account the Combined Code on Corporate Governance. Where practical, managers should vote in line with the Council's priority themes.

Fund managers report in advance of all voting rights they intend to exercise on behalf of the Fund. They provide details of their house view and on how they intend to vote. They ensure that this is consistent with the Council's key themes and also with the LAPFF principles.

Fund managers' views are compared with the recommendations and advice provided by the Pensions Investment Research Consultants (PIRC) research service. Where the fund managers' house views are not consistent with those of PIRC, this is reported to the fund managers and they are instructed to vote accordingly on behalf of the Fund.

Fund managers provide a quarterly report on corporate governance activity. This lists all votes which have been exercised and all engagement with companies which has taken place. It allows for checks to be carried out in order to ensure all the Fund's voting rights have been exercised in accordance with policy. Summary reports outlining voting and engagement activity are provided at quarterly Pensions Advisory Panel meetings.

COMPLIANCE

Frequency of Review

The Authority's policy is to review this statement annually or sooner if there is a change in the policy on any of the areas covered by the statement. The Authority will consult with such persons as they consider appropriate and take written advice when revising the statement.

INVESTMENT DECISION MAKING PRINCIPLES

General

The Authority's policy is to adopt the six principles of investment practice set out in the document published in 2009 by the Chartered Institute of Public Finance and Accountancy called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles." The Authority is working towards full compliance, where appropriate, and the current position, along with each principle, is set out in the following assessment of compliance:

Myners Principles - Assessment of Compliance

1. Effective Decision-Making

Principle

Administering authorities should ensure that:

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

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel is supported by suitably qualified officers and external advisers. All members of the PAP are offered training on appropriate topics at each PAP meeting.

2. Clear Objectives

Principle

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

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund's objectives are set out in the Statement of Investment Principles. The objective, benchmark and risk parameters are clearly stated in the Investment Management Agreements with each investment manager.
- Covenants of all scheme employers are reviewed on an ongoing basis.

3. Risk and Liabilities

Principle

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

State of Compliance The Fund is currently **fully compliant** with this principle:

- The asset allocation strategy is reviewed every 3 years. Hewitt are commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.
- The study follows the triennial actuarial valuation and the form and structure of liabilities are fully taken into account.
- A risk management database is used to manage and review the risks associated with all scheme employers.

4. Performance Assessment

Principle

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

State of Compliance The Fund is currently **partially compliant** with this principle:

- The PAP monitors the performance of the investment managers and the suitability of the investment strategy on a regular basis.
- Performance measurement is provided by WM Company.

5. Responsible Ownership

Principle

Administering authorities should:

- Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

State of Compliance The Fund is currently **partially compliant** with this principle:

- The Fund has adopted the investment managers' policies on activism and each has adopted the Institutional Shareholders' Committee Statement of Principles. All investment managers adopt a policy of engagement with companies.
- The Fund's policy on responsible ownership is set out in its Statement of Investment Principles.
- Investment Managers report on the exercise of voting rights and this is monitored by officers and the PAP to ensure consistency with the Fund's policy.

6. Transparency & Reporting

Principle

Administering authorities should:

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

State of Compliance

The Fund is currently **partially compliant** with this principle:

- Documents relating to the Pension Fund are published on the Council's website
- The annual report sets out the arrangements during the year for the management of investment, governance and risks and other relevant information.
- Members can also request information directly from the Council.

APPENDIX

The investment objectives for each fund manager are as follows:

Alliance Bernstein Value

To out-perform the FTSE All World Index by 4% (gross of fees) over rolling 3 year periods.

Alliance Bernstein Growth

To out-perform the FTSE All World Index by 3% (gross of fees) over rolling 3 year periods.

Newton Investment Management

To out-perform the FTSE All World Index by 3% pa over rolling 3 year periods.

BlackRock (formerly Barclays Global Investors)

To perform in line with a fixed benchmark of Global equities and bonds over rolling three year periods

Henderson Global Investors

To out-perform the IPD small balanced fund index by at least 1% per annum over rolling three year periods

APPENDIX 7: Pensions Services Communications Strategy

Background

Recent changes to the Local Government Pension Scheme Regulations 1997 (Regulation 106B) mean that

"An administering authority must prepare, maintain and publish a written statement setting out their policy concerning communications with-

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

(2) 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.

One of the cornerstones of the Pensions Section work is communicating with its membership. Their frontline role is mainly informational, but they also can be involved in resolving disputes regarding the Regulations and providing guidance to elected councillors about the way the scheme is being administered.

Pensions Services has always communicated well with its customers (both internal and external) and this statement will merely formalise already effective procedures

Objectives of the communications strategy:

1. To ensure that the current working populous of the council have access to good information about their pension scheme, are provided with a benefit statement showing the current value of their pension benefits every year and are kept up to date with any changes or improvements to the scheme.
2. To ensure that pensioner members of the scheme have access to good information about their pensions scheme and are provided with the required information for Her Majesty's Revenue and Customs (HMRC) on an annual basis
3. To ensure that deferred members of the scheme have access to good information about their pension scheme and are provided with a benefit statement every year setting out the current value of their pension benefits
4. To ensure that the various scheme employers (schools admitted bodies etc) have access to good information about the pension scheme, are kept informed of any changes to the scheme and have access to any literature they may require, to provide a service to their staff.

Proposed communications methods:

The strategy is designed to take key messages out to the widest range of audiences to locations and through channels that are familiar and have maximum impact – such as the internet, the source, written correspondence posters and leaflets

This will ensure that the presence and general awareness of Pensions Services achieves the required outcomes of an increase in awareness about pensions issues. Using a menu of options means the final plan can be tailored according to budget and resource constraints.

Communications Tools

The overarching approach of the strategy to maintain a very high profile, almost to saturation point, so that the Pensions Service message is being constantly reinforced. This will be achieved through:

- **Website** General information about the pensions scheme is available on the website together with options (using Axis Online) for active, deferred and pensioner members to view specific information about their pension change addresses etc on line and (in some cases) carry out projected benefit estimations.
- **Written Communication** Every active and deferred pensioner member to receive a benefit statement (annually) included with this statement will be any pertinent information about their pension benefits and scheme changes plus it will invite them to look at the website to stay current. Every pensioner member will receive a statement (annually) setting out the value of their pension benefits as a reflection of the lifetime allowance (as specified by HMRC) also included with this statement will be any pertinent information about their pension benefits and scheme changes plus it will invite them to look at the website to stay current
- **Survey** Surveys will be carried out when required that will be used to test active, deferred and pensioner members satisfaction with the way information is cascaded to them from pensions services. They will also be cross-pollination of ideas with all members being given the opportunity to have an input into the way pensions services communications with them