

1. INTRODUCTION

The London Borough of Southwark Pension Fund (the Fund) is one of the largest Local Government Pension Scheme (LGPS) funds in London in terms of membership and assets. The LGPS provides for the occupational pensions of employees, other than teachers, police officers and fire fighters, of local authorities. It is a contributory defined benefit (DB) scheme established by the Superannuation Act 1972. With 6.1 million members, over 18,000 employers and assets of £342 billion as at 31 March 2022, the LGPS is one of the largest DB schemes in the world, and one of the largest DB schemes in England and Wales.

Employer and employee contributions, together with investment returns generated from the Fund's investments make up the majority of income into the Fund. Contributions and other balances not immediately required to meet pension liabilities and other benefits are invested in a diverse range of investment assets.

The investment strategy for the Fund is determined by the Council, as the Administering Authority of the Fund, with advice from the Pensions Advisory Panel (PAP), but individual investment decisions are delegated to externally appointed investment managers.

The Fund's primary fiduciary duty is to ensure there are sufficient resources available to meet all pension payments as they fall due. An actuarial valuation is conducted every three years to ensure there continues to be sufficient assets to cover pensions liabilities. The 2022 triennial actuarial valuation was signed off on 31 March 2023 with revised contributions coming into effect on 1 April 2023. The funding level of 109% continues to ensure stability of contributions going forward. The next actuarial valuation is due to take place in 2025.

The objectives of the Fund are to:

- Adequately fund benefits to secure the Fund's solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers; and
- Seek to maintain overall employer contribution rates as nearly constant as possible (and subject to the administering authority not taking undue risks) at reasonable cost to taxpayers, scheduled and admitted bodies; and
- Achieve net zero carbon emissions through the Fund's investments by 2030, whilst ensuring the first two objectives of the Fund are upheld.

The Fund is a mix of final salary benefits for service before 1 April 2014 and a Career Average Revalued Earnings (CARE) scheme for all service after 1 April 2014.

Pensioner Payroll services was added to the pension fund operation in April 2022 and is now managed by a new Payroll Manager. The Payroll team deal with all pensioner enquiries and ensure pensions are paid on time.

Investment in technology is currently at the forefront of all operational activity and is keeping the team very busy.

The new admin system Civica UPM is now fully embedded into the team, however, there are ongoing improvements to ensuring the quality of data, as the new data

system is different to the previous admin system. The Member Portal (“self-service”) is still undergoing work, further functionality is being tested, and all members will be notified when this goes live according to their status (e.g. active, deferred, etc). In 2022 the single payments system was set up. This means that members who are due to retire can receive their lump sum payment before the first date of their Pension. Southwark Pension Services, are now part of the Fraud Access Hub, which has been set up in collaboration with NFI. This gives access to previously unavailable data, such as – death matches, ID checks, address checking etc, in order to make sure that no fraud is happening. Pension Services, are also currently gearing up for the National Dashboard programme, work for this is expected to commence in 2024.

The pension fund’s training team have also been very busy, delivering training to all admitted bodies (schools and depot staff) on Basic Pensions and Annual Benefit Statements, whilst continuing to deliver weekly training to pension fund staff to enhance their skills and knowledge as part of personal development.

The communications team have also been proactively working on delivering an updated and fully managed in-house pension fund website to reflect changes in IT/software and an ever-evolving pensions landscape. The new website will include not only admin/operational information, but more information on investment management and how the pension fund is performing.

Pension Services have also taken part in Southwark Council’s apprenticeship scheme, and have an apprentice starting shortly. They will undertake work in all areas of pensions services to obtain a broad range of skills and knowledge over a two year period, with access to professional qualifications. This is very much on a trial basis but with a longer-term view that the pension fund can take on additional apprentices over the next few years where they can either remain with Southwark or possibly be offered to other London Boroughs looking for new assistant pension officers.

As the size of the fund grows, the number of investment mandates grows too. Across the year, one new investment was made in sustainable infrastructure, and three new mandates were agreed by the Pension Advisory Panel for investment in 2023-24. In response to this, the Pensions and Treasury Investments team has expanded, now incorporating additional resource of an investment manager and an additional pension fund accountant position. This has allowed for an increase in capacity for officers and has allowed work planning to spread into more value-adding areas for the Fund.

The Fund is taking an active approach in reacting to the climate emergency, as announced by the London Borough of Southwark in 2019. Within the Pensions and Treasury Investments function, there has been increased focus on the measurement of the carbon footprint of all investment holdings. The Fund’s commitment to the 2030 deadline was underpinned in 2022-23 following the appointment of a dedicated Environmental, Social and Governance (ESG) Manager whose role involves developing ESG policies in line with the Fund’s fiduciary duty, management of carbon measurement and direct engagement with fund managers on their ESG credentials. During the financial year 2022-23, the Fund moved £550 million into assets that have a lower carbon intensity than their legacy equivalents.

Governance of the Fund

With effect from 1 April 2015, all authorities that administer the LGPS are required to establish a Local Pensions Board (LPB), whose role is to assist in the governance of the Fund. In many ways the Board have the same fiduciary duties that would be associated with pension scheme trustees. In addition, there is a National Scheme Advisory Board and two cost control mechanisms which seek to monitor and contain the overall cost of the LGPS at a national level.

A significant risk in 2022-23 was the ongoing increase in interest rates resultant of the ongoing Russia-Ukraine war and related inflationary increases. This renewed volatility within the equity markets. The impact will continue to be monitored closely with action being taken to protect the Fund's assets where necessary, such as ongoing investment in defensive assets, such as index-linked gilts.

September 2022 saw the announcement of Kwasi Kwarteng's Mini-Budget and the market volatility that followed. This had an initial minor impact on the Fund as LBS Pension Fund assets are diversified and bonds historically account for a small proportion of the fund, which is where the key impacts were seen. However, there were associated falls in the stock market. This was seen in reduced fund value in Q1 and Q2 2022-23, but the Fund's value improved again by the end of the financial year. The value of the Fund is monitored on an ongoing basis by officers of the Fund.

Due to the Triple Lock safeguard on pension benefits, from 1st April 2023 there will be a 10.1% uplift in pension benefits paid. In preparation for this, officers of the Fund have implemented a Cash Flow Policy, in order to maintain and manage the pension fund bank account to mitigate liquidity risk for the fund through implementing three new highly liquid investments. Officers of the fund are monitoring progress against this new policy and will feedback to the Pensions Advisory Panel in 2023-24 with an update on implementation of the policy.

Clive Palfreyman
Strategic Director of Finance

2. REPORT FROM THE INDEPENDENT CHAIR OF THE LOCAL PENSION BOARD

Local Pension Boards were established under the 2013 Pensions Act. Each Administering Authority is required to establish a Board to assist with the effective and efficient governance and administration of the scheme. The Board is also tasked with ensuring compliance with the various legislative requirements and those of The Pensions Regulator, complementing the already well developed governance structure which underpins the pension scheme.

The independent Chair of the Local Pension Board attends the Pensions Advisory Panel (PAP). This provides a useful link between the advisory body and the Board. The link is further strengthened by the attendance at the Board of the Strategic Director of Finance and Governance on an ad hoc basis; attendance of other key officers and joint training sessions for the Board and PAP members. The chair is elected annually with the incumbent leaving the meeting to avoid any conflict of interest.

The first meeting of the Board was held in July 2015, and since then has established itself as part of Southwark's governance structure in relation to the Fund. The Board's core functions are set out in the [Terms of Reference](#).

The composition of the Local Pension Board is set out below:

Independent Chair

Mike Ellsmore

Scheme Member Representatives

Diana Lupulesc (employee representative)

Stuart Mumford (employee representative)

Tony O'Brien (retired employee representative)

Employer representatives

Dominic Cain (Vice Chair) (employer representative)

Allan Wells (employer representative)

Mike Antoniou (schools employer representative)

The Board meets quarterly and the current membership and attendance at meetings during 2022-23 is set out in the table below. The meeting papers can be accessed [here](#).

Name	Title	06-Apr-22	06-Jul-22	19-Oct-22	18-Jan-23
Mike Ellsmore	Independent Chair	✓	✓	✓	✓
Diana Lupulesc	Scheme Member Representative	✓	A	A	✓
Stuart Mumford	Scheme Member Representative			✓	A
Tony O'Brien	Retired Scheme Member Representative	✓	✓	✓	✓
Dominic Cain	Employer Representative, Vice Chair	✓	✓	✓	✓
Allan Wells	Employer Representative	✓	✓	✓	✓
Mike Antoniou	Schools Employer Representative	✓	✓	✓	✓

✓ *Attended*

A *Absent with apologies*

Knowledge and understanding/training

As set out in the national guidance for Local Pension Boards, knowledge and understanding is a key part of being an effective Board member. Board members continuously engage in training programmes in order to develop and refresh their skills and knowledge and have access to The Pensions Regulator public service toolkit and the CIPFA guide for Local Pension Boards. In 2022-23, the Board has received training on the following items, from both internal and external trainers:

- Investment Strategies and Fossil Fuel Divestment
- Breaches of Pension Law
- Actuarial Valuations – Processes and 2022 Valuation Results

Work during the year

The Board regularly receives reports on Pension Services performance and the Pensions Advisory Panel agendas. During the year, the Board has also considered:

- Monitoring updates against the Pensions Regulator's Code of Practice 14 action plan to ensure full compliance
- Implementation of an annual Register of Interests for Board members
- Annual update of the fund's Risk Register
- Annual audit of the Funds' managers, custodian and banking provider's cyber security
- TCFD (Taskforce on Climate-Related Financial Disclosures) Consultation for LGPS funds
- Implementation of an Appointments Process Policy for Board members

The Board continues to be concerned with the lack of key performance indicators relating to the Pension Administration Service. This follows the implementation of a new pensions system. The pensions manager has assured the Board that there have not been any breaches of legislation, and it has been agreed that progress will be made to be in a position to report KPIs to the Board during 2023-24.

The Board is pleased to see that the Pension Advisory Panel has approved a Fund-specific Conflicts of Interest Policy. This significantly strengthens the governance of the Fund.

A number of Southwark-specific, employer related issues were raised at the Board and although these are not within the remit of the Board, the Director of Human Resources has been invited to a future Board meeting.

Future work

There are plans to build a fund-wide business plan, which will be used to construct a long-term training plan into the future for both the Local Pension Board and the Pensions Advisory Panel. This will inform a number of training points and discussions to be had by the Board and the Panel to ensure continued good governance and strong decision-making by all members and officers involved.

Looking ahead, the Board's work plan will be to continue to monitor the changes which the pension administration service is undergoing. As the composition of the Fund's investments continues to evolve, the Board will also continue to receive and scrutinise updates on the progress made towards the net zero carbon emissions target.

For 2023-24, there are initial plans for training for Local Pension Board to cover a refresh on the types of and risks associated with scheme employers, pensions administration structures and the role of external stakeholders to the fund.

The Board will continue to monitor the impact of the Scheme Advisory Board's Good Governance Project and the Pension Regulators' (TPR) proposed modular code of practice for the Pension Fund will also be a priority.

The Board will also monitor the resources allocated and employed in the management of the Fund in the context of an increasingly complex investment and administrative landscape, with a particular focus on progression towards the strategic target of reaching net zero carbon emissions by 2030 through the fund's investments.

Expenses

The total expenses of £13,891 incurred by the Board for 2022-23 are set out below:

Expense	£
Allowance – Independent Chair	3,609
Annual Insurance Fees	6,282
Training	3,999
Total	13,891

Mike Ellsmore
Independent Chair

3. GOVERNANCE POLICY AND COMPLIANCE

The Fund's Governance Compliance Statement is included at Appendix 4 of this report.

The Pensions Advisory Panel (PAP) meets quarterly and membership for 2022-23 comprised:

Councillors: Stephanie Cryan (Chair)
Andy Simmons
Rachel Bentley

Officers: Duncan Whitfield (*Strategic Director of Finance and Governance*)
Officer with specialist knowledge of pensions finance and investments
Officer with specialist knowledge of pensions administration

Observers: Roger Stocker (*Unison*) – *Retired employee representative*
Julie Timbrell (*Unison*) – *employee representative*
Derrick Bennett (*GMB*) – *employee representative*

Advisers: Colin Cartwright (*Aon*)
David Cullinan (*Independent Adviser*)
Mike Ellsmore (*Chair of the Local Pension Board*)

Pensions Advisory Panel Meeting Attendance 2022-23				
Name	Company/Department	31-Oct-22	05-Dec-22	06-Mar-23
Stephanie Cryan (Chair)	Elected member	A	✓	✓
Andy Simmons	Elected member	✓*	✓	✓
Rachel Bentley	Elected member	✓	✓	✓
Duncan Whitfield	Strategic Director of Finance and Governance	✓	✓	✓
Officer with specialist knowledge of pensions finance and investments	Finance and Governance	✓	✓	✓
Officer with specialist knowledge of pensions administration	Finance and Governance	A	A	✓
Roger Stocker	Unison	✓	✓	✓
Julie Tumbrel	Unison	✓	✓	✓
Derrick Bennett	GMB	A	✓	✓
David Cullinan	Independent Adviser	✓	✓	✓
Investment Advisers	Aon	✓	✓	✓
Mike Ellsmore	Chair of the Local Pension Board	✓	✓	✓

Notes

- ✓ Attended
- ✓* Attended, acted up as Chair of the meeting in the Chair's absence
- A Absent with apologies

Knowledge and skills

As an Administering Authority of the LGPS, Southwark Council recognises the importance of ensuring that officers and elected members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide training for officers and members of the PAP to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. Ongoing informal training is provided in quarterly PAP meetings to ensure members have an appropriate understanding of the recommendations they make to the Strategic Director of Finance.

4. MANAGEMENT AND FINANCIAL PERFORMANCE

Scheme management and advisers

Investment Adviser	Aon David Cullinan (Independent Adviser)
Actuary	Aon
Performance monitoring	PIRC – Local Authority Performance Analytics
Asset Pool	London Collective Investment Vehicle (LCIV)
Investment managers	BlackRock Advisors (UK) Ltd Blackstone Brockton Capital LLP BTG Pactual Comgest Darwin Frogmore Real Estate Partners Glennmont Partners Invesco Real Estate Legal & General Investment Management M&G Real Estate Newton Investment Management Nuveen Real Estate Temporis Capital
Custodian	JP Morgan
Auditor	Grant Thornton
AVC providers	AEGON
Banker	NatWest
Legal adviser	Pinsent Masons
Communications adviser	Concert Consulting UK Limited

Risk management

The Fund's risks are managed in accordance with the Council's risk management policy and strategy. In line with this strategy, the Fund maintains a risk register, which sets out the controls in place to manage the risks identified. As at April 2023 the key risks facing the Fund were:

Risk Description	Risk Category	Risk controls (mitigation)
The Fund's asset allocation strategy is not sufficient to meet obligations and liabilities	Financial	<p>Reports on the funding level produced quarterly by Fund actuary and reviewed by PAP. Funding strategy statement reviewed every 3 years.</p> <p>Fund actuary takes liability profile into consideration when setting contribution rates at each triennial valuation.</p> <p>Investment strategy review conducted following each triennial actuarial valuation, to determine optimal asset allocation for the Fund. Actual asset allocation reported to PAP every quarter with variances of actual allocation to target discussed.</p> <p>The Fund holds investments in assets such as index-linked gilts, which have a value which is linked to inflation, a key driver of pension liabilities.</p>
Failure to communicate with relevant stakeholders	Financial/ Operational	<p>New fund website with ongoing development. Member information guides under review.</p> <p>Training material developed and exists on Member Learning Source.</p> <p>Meetings held regularly with HR/employers ABS sent annually to active and deferred members.</p> <p>Annual report, prepared in accordance with statutory guidelines, published on the website. Newsletters are issued etc.</p>
Employer systems - calculation of employee pension contribution bandings on SAP	Operational/ reputational	<p>HR creating a new employee banding Policy effective from 6th April 2022.</p> <p>Affected members will be contacted as part of a historical exercise.</p> <p>Any members who owe money will have opportunity to enter a repayment plan over a mutually agreed period.</p>

Risk Description	Risk Category	Risk controls (mitigation)
<p>Poor investment performance of individual mandates could lead to a deficit and therefore a requirement for higher employer contributions.</p>	<p>Financial</p>	<p>Investments monitored regularly. Pensions Advisory Panel (PAP) reviews fund manager performance quarterly against benchmark.</p> <p>Regular reports received from investment advisers providing ratings of managers.</p> <p>Regular meetings with fund managers regarding performance.</p> <p>The Fund undertakes regular reviews of its investment strategy to ensure that the investment asset and manager allocation is appropriate to meet the future pension obligations for the fund.</p>
<p>Employers fail to provide information that fund requires resulting in poor service, increased complaints and possible fines and penalties</p>	<p>Reputational</p>	<p>Employer/HR function going through business transformation exercise, with emphasis on more robust processes and better understanding of fund requirements.</p> <p>New Admin Strategy has been agreed by Strategic Director of Finance, which allows employers to be fined for poor performance following an agreed escalation process.</p>
<p>Employer data is inaccurate or contributions are received late creating a financial or regulatory risk to the fund</p>	<p>Financial</p>	<p>Administration Strategy sets out roles and responsibilities clearly and consequences of non-compliance</p> <p>Communication Strategy to ensure employers reminded of information required</p> <p>Regular monitoring and reconciliation of contributions from employers. Fund can charge interest on the late payment of contributions</p> <p>Employers required to provide sufficient information for monthly returns to allow verification that the amounts due are correct.</p> <p>The rollout of the iConnect portal allows employers to efficiently upload information directly to the Fund with automatic data verification checks.</p> <p>The new Pension Services structure includes a specialist Data Team to manage data from employers.</p>

Risk Description	Risk Category	Risk controls (mitigation)
Inaccurate or incomplete member data	Financial/ Operational	<p>Data team in place, reconciliation against other Council/employer systems</p> <p>Administration Strategy supports monitoring of employer compliance</p> <p>Data matching exercises (National Fraud Initiative) help to identify discrepancies</p> <p>Mortality Screening and address tracing is performed frequently.</p> <p>Data Management Plan to be agreed.</p> <p>New pension and payroll software has been procured with greater analysis functionality.</p>
Inadequate controls to safeguard pension fund records.	Financial/ Operational	<p>Cloud hosting and back up arrangements in place.</p> <p>Newly procured pension system will have greater audit functionality.</p> <p>Software regularly updated to meet LGPS requirements.</p> <p>Audit trails and reconciliations in place.</p> <p>GDPR in place.</p> <p>Pensions staff undertake data management training as required.</p>
Detrimental investment performance and reputational damage resulting from untimely or incorrect implementation of the Fund's commitment to achieve net zero carbon by 2030.	Financial	<p>The Fund has committed to achieve net zero carbon within its investments by 2030.</p> <p>An updated investment strategy has been launched which sets out how this will be achieved in the short, medium and long term, whilst maintaining acceptable levels of risk and return.</p> <p>The Fund maintains regular contact with like-minded LGPS Funds and other advisory bodies to keep abreast of all pertinent regulatory and investment developments.</p> <p>The Fund will monitor the impact of any changes in investment strategy.</p>

Risk Description	Risk Category	Risk controls (mitigation)
<p>Reliance on a smaller pool of specialist staff across LGPS impacts on ability to recruit and retain staff and increases the risk of a potential loss of knowledge and expertise</p>	<p>Staffing & Culture</p>	<p>Use of external advisers with specialist knowledge</p> <p>Development and implementation/roll-out of training programmes to help ensure staff are equipped with appropriate skills and knowledge.</p> <p>Pension Services new structure agreed which moves away from former flat structure with limited development opportunities. This will mitigate against risks around staff retention and succession planning. New specific role focuses on knowledge management, development and multi-skilling.</p>
<p>International conflicts and changing market conditions impact fund performance and income from investments, resulting in a reduction in fund value and impact on ability to pay pensions</p>	<p>Financial</p>	<p>Ongoing monitoring of Fund performance and investment markets.</p> <p>Advice obtained from investment advisers on continuing suitability of asset allocation.</p> <p>Review of scheme employers' financial strength and likelihood of exit.</p> <p>The Fund holds investments in diversified assets, reducing volatility and ensuring long term stability.</p> <p>Cash flow monitored on a regular basis. Investment income reinvested and not required to pay pensions.</p> <p>Review of investments to identify holdings in Russia completed. Fund has a very small exposure representing 0.023% of total Fund value. Plans are in place to exit these holdings as soon as Russian investment markets reopen.</p> <p>Additional reporting received on emerging market holdings to monitor impact of ongoing conflict.</p>

Risk Description	Risk Category	Risk controls (mitigation)
<p>Inadequate resourcing across pension fund accounting and investment functions, following recently increased complexity of investment strategy, could lead to insufficient management of investments resulting in a potential reduction in Fund value.</p>	<p>Financial</p>	<p>Restructure underway to identify additional resources required to address increased complexity and number of investment mandates introduced as a result of net zero carbon commitment.</p> <p>Additional support obtained from investment advisers to ensure ongoing management of increasingly complex investments.</p> <p>Temporary staffing resources in place until restructure is completed.</p>
<p>Annual Benefit Statements and P60/payroll/tax communications - not being received by members who have no access to internal IT systems</p>	<p>Operational /reputational</p>	<p>HR identifying all frontline operatives who do not have access to internal Southwark IT systems and emails.</p> <p>Appropriate marker on SAP will be activated to ensure that frontline operatives receive employer communications by post (and not internal email).</p> <p>Alternatively, employer communications will be sent directly to depots for distribution to members.</p>
<p>Failure of third party providers for investment management and custodial services, including LCIV, could have a serious financial impact on the Fund.</p>	<p>Financial</p>	<p>Contracts are monitored regularly.</p> <p>PAP provided with quarterly information for each manager. Where there are concerns additional monitoring is put in place to ensure financial risks are kept to an acceptable level.</p> <p>Third parties provide Fund with an annual SAS70 (or equivalent) report which provides assurance from their auditors that adequate controls are in place and are operating effectively.</p> <p>Assets to be transferred to the pool only upon satisfactory business case and due diligence</p>

Risk Description	Risk Category	Risk controls (mitigation)
<p>Major IT failure or data corruption/cyber-attacks results in administration function's inability to progress pension queries, and potential loss or permanent corruption of data files</p>	<p>Reputational</p>	<p>Civica UPM has been extensively tested and secured against cyber-attack.</p> <p>The system only allows access from pre-approved IP addresses, limited to the Southwark Council network and Aon.</p> <p>Maintain business continuity and disaster recovery plans.</p> <p>Data is stored in cloud servers hosted by Civica in a UK data centre. ISO certifications provide confidence that Civica operations meet the highest levels of information security, IT service management and has the Government's IL3 accreditation rating, the highest security rating available.</p> <p>A secondary disaster recovery database is continuously running, and so in the event of cyber-attack or other downtime, the system can switch to a backup with limited loss of data. Every keystroke on the system is fully logged and audited.</p>
<p>Failure to comply with data protection legislation which results in reputational damage, scrutiny by the ICO and potential financial loss.</p>	<p>Legal & regulatory</p>	<p>Robust procedures are in place which are subject to audit review.</p> <p>Council's action plan for GDPR includes the pension fund and is on track.</p> <p>New training is available and all pensions staff will be required to complete this and refresher training on an annual basis.</p>
<p>Structural changes in Fund membership, leading to unforeseen cash flow implications and the forced sale of assets to meet pension benefits</p>	<p>Financial</p>	<p>The Fund undertakes long term cash forecasting to identify trends in cash in/outflows which is built into a strategy to ensure suitable cash inflows to support pension benefit costs.</p> <p>The Fund currently generates surplus cash flows through investment income, which is reinvested but could be directed to pay pension benefits if required.</p> <p>A formal cash flow management policy has been adopted, which ensures officers have the ability to maintain adequate liquidity to meet obligations, whilst limiting cash balances in order to maximise investment returns.</p>

Risk Description	Risk Category	Risk controls (mitigation)
<p>That required liquidity in investment assets is not available to allow the fund to meet pension fund obligations as they fall due.</p>	<p>Financial</p>	<p>Changes to investment strategy include consideration of split between liquid and illiquid investments.</p> <p>Ongoing monitoring of investments to ensure appropriate balance between liquid and illiquid investments ensuring the fund benefits from the potential for higher returns associated with illiquid investments, whilst still being able to meet obligations as they fall due.</p> <p>The investment strategy is split across a range of asset classes and means of implementation to allow for a variety of redemption options.</p> <p>Cash flow forecasting allows the Fund to predict likely cash flow requirements well in advance.</p>
<p>Impact of McCloud judgement.</p>	<p>Financial</p>	<p>Scoping level of resources in line with SAB guidance and DLUHC consultation paper.</p> <p>Expected to take LGPS employers 18-24 months to complete.</p> <p>Pension Fund website regularly provides news updates to members.</p> <p>Civica UPM provider has already built/tested McCloud software.</p>
<p>Fraud perpetrated against the fund either internally or externally resulting in a significant financial loss</p>	<p>Financial</p>	<p>The internal controls for the Fund and Council as administering authority are reviewed by internal and external audit on a regular basis.</p> <p>Control arrangements are in place to ensure transactions require multiple layers of authorisation.</p> <p>Participation in National Fraud Initiative matching exercises.</p> <p>Fund participates in DWP "Tell us Once" initiative</p>
<p>Pension information to scheme members is inaccurate resulting in claims for compensation against the fund and the Pensions Ombudsman</p>	<p>Financial</p>	<p>Robust procedures including appropriate internal checking processes carried out by Senior Officers.</p> <p>Specialist advice is obtained from external advisers where appropriate.</p>

Risk Description	Risk Category	Risk controls (mitigation)
Admitted/Scheduled Bodies – failure of body/deficits on termination of contracts – could lead to an increase in other scheme employers' contributions	Financial	<p>Admission agreements for transferee admission bodies place liability for pension deficits with Southwark Council limiting the Fund's counterparty exposure risk.</p> <p>Funding levels for employers are monitored at each valuation. Contributions and deficit recovery periods set at appropriate level to take into account strength of covenant.</p> <p>Regular monitoring of amounts due from admitted/scheduled bodies. Actions taken to recover late payments.</p> <p>Academy pension liabilities are supported by a guarantee from the Department for Education.</p>
Failure to comply with existing/new Scheme regulations – resulting in legal sanctions and detrimental effect on Council's reputation.	Legal & regulatory	<p>Monitoring of compliance with regulations.</p> <p>Pension Services restructure now agreed and ongoing use of external advisers with specialist knowledge to advise on implementation of regulations if required.</p> <p>Fund breaches policy sets out clear guidance and mechanism for the reporting of breaches by those involved in management of the Fund and to the Pensions Regulator.</p>
Inaccuracy of financial information affects organisational decision making	Reputational	<p>Accounting data reconciled on timely basis.</p> <p>Fund manager valuations independently verified by Fund's custodian.</p> <p>Accounts prepared in accordance with relevant regulatory codes</p>

The Fund's biggest overall risks (as identified above) are

i) that its assets fall short of its liabilities, resulting in there being insufficient funds to pay benefits to members as they fall due. In mitigation, the Fund's investment objectives have been set with the aim of maximising investment returns over the long term within specific risk tolerances

and

ii) that there is a failure to communicate with relevant stakeholders. In mitigation there are a number of risk controls in place, such as regular meetings between HR and employers, that reduce the risk of such an occurrence.

The Strategic Director of Finance (SDF) 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 SDF, taking into account the advice they receive from the Fund's external advisers. They make recommendations to the SDF 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 investment adviser and performance measurement provider carry out the following evaluations that are reviewed by the PAP on a quarterly basis:

- Independent evaluation and analysis of Fund performance;
- Reviewing benchmarks and asset allocation; financial markets review; and
- Reviewing changes in the investment managers' business (through manager ratings).

Investments are monitored to ensure they are compliant with the LGPS regulations.

The Fund's assets are managed by external investment managers, who are required to provide an audited internal controls report annually to the Fund, which sets out how they ensure the Fund's assets are managed in accordance with their Investment Management Agreement. A range of investment managers have been appointed to diversify manager risk. The Fund's assets are held for safekeeping by the custodian (who also provides independent valuations of the Fund's investments).

The Funding Strategy Statement was reviewed in January 2023 and sets out the key risks (including demographic, regulatory and governance) to not achieving full funding in line with the strategy. The Actuary reports on these risks at each triennial actuarial valuation and more regularly if circumstances require. The last triennial actuarial valuation was completed as at 31 March 2022.

Financial Performance

During 2022-23 the Fund reduced in value by over £83 million (-3.9%) to £2,060 million. A detailed analysis of the movement can be found in the Statement of Accounts for the Fund at Appendix 2 of this report, and is summarised below:

	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Opening net assets	1,530,947	1,641,986	1,581,541	1,948,624	2,143,749
Contributions and joiners	58,891	65,787	69,712	71,270	65,860
Benefits and leavers	(64,076)	(71,384)	(67,580)	(72,050)	(76,024)
Investment income less taxes	15,432	15,287	9,497	5,367	17,968
Management expenses	(7,508)	(8,881)	(7,699)	(8,980)	11,785
Profit on sale and change in investment value	108,300	(61,254)	363,153	199,518	79,281
(Increase)/Decrease in Fund value	111,039	(60,445)	367,083	195,125	83,262
Closing net assets	1,641,986	1,581,541	1,948,624	2,143,749	2,060,487

During the year the net cash flow from membership (contributions and joiners, less benefits paid and leavers) was negative, a net decrease of £10.2m. Contributions in remained largely constant, whilst transfers in showed a 40% decrease and benefits paid increased by 10.1%.

Investment income was strong in 2022-23, but this was entirely offset by a reduction in market value across a number of assets. The Investment Policy and Performance section provides more detailed analysis of investment performance over the year.

Costs per Member

Costs per member	2018-19 £	2019-20 £	2020-21 £	2021-22 £	2022-23 £
Administration	122.6	154.8	147.6	78.1	142.1
Oversight and Governance	4.1	3.3	19.5	22.7	18.5
Investment Management	69.0	63.7	140.8	269.6	306.3
Total Costs per Member	195.7	221.8	307.9	370.4	466.87

The administration costs for 2022-23 have increased considerably due to additional resourcing within the Pensions team and increased costs from clearing backlog issues that have arisen, along with implementation costs associated with the new UPM system. Investment management costs have increased due to the implementation of new investment mandates which are expected to achieve high overall returns over the medium to long term, offsetting these costs into the future.

Pension Overpayments

213 instances of overpayments to pensioners occurred during 2022-23.

£21,273.32 of overpaid pensions was 'written off' as the debt came to less than £500 or the pensions team were notified of the overpayment within a month of the death in accordance with the Southwark Pension Fund Overpayment Policy.

£38,795.09 is still currently in the process of being recovered (the majority on cases where solicitors are awaiting probate for the estate).

5. INVESTMENT POLICY AND PERFORMANCE

Investment policy

The Fund is managed with regard to a strategic asset allocation benchmark. This is reviewed every three years, following the Fund's triennial actuarial valuation. The latest Investment Strategy Statement (ISS) was published in December 2022, including an updated strategic asset allocation, shown on the following page.

The strategic asset allocation is set to provide the required return, over the long-term, to maintain full funding within an acceptable level of risk. The actual asset allocation may differ from the strategic benchmark within tolerances that are agreed by the Pensions Advisory Panel (PAP) on the advice of the Fund's investment advisers. The

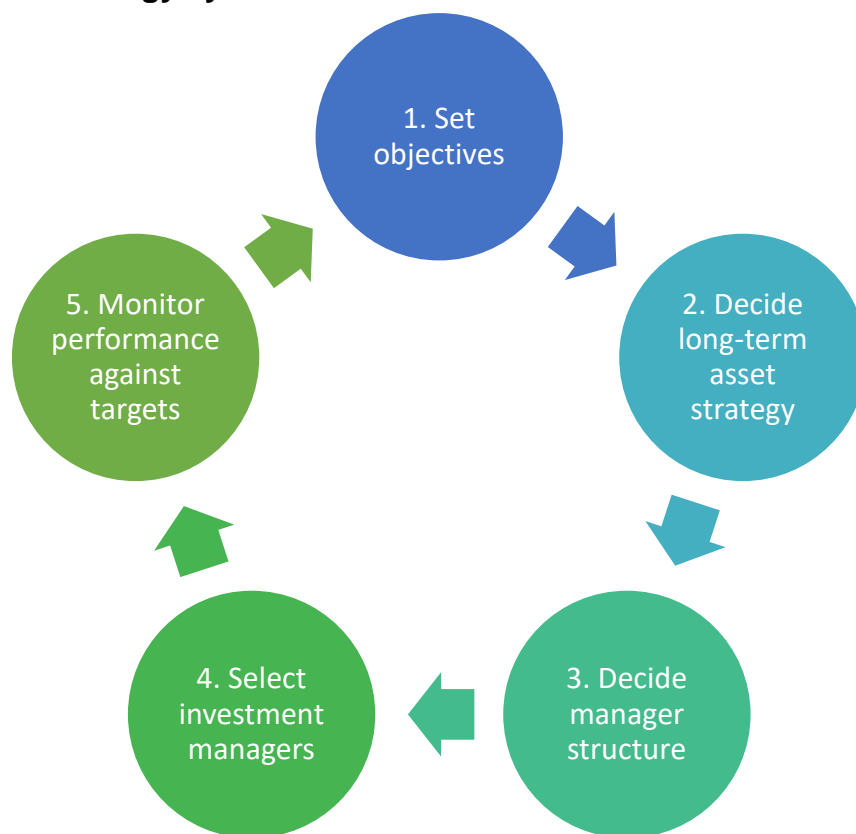
distribution of investments is reported to PAP quarterly and monitored on an ongoing basis by the investments team.

The Fund's investment objective is to support an investment strategy and structure that incorporates an appropriate balance between risk and return considering the Fund's specific liabilities. In doing this, the investment strategy reviews both manager performance and long-term allocation between various asset classes as returns between these classes can vary significantly.

The Funding Strategy Statement (FSS) and the Investment Strategy Statement (ISS) set out the Fund's policies on funding and investments. The FSS is included as Appendix 3 of this report and the ISS as Appendix 4.

The ISS sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, outlines the Fund's approach to managing risk, how environmental, social and governance (ESG) issues are taken into account and the approach with regard to pooling of investments.

The investment strategy cycle



Strategic Asset Allocation

Asset Class	Target Allocation %	Investment Style %	Maximum Allocation %	Role(s) within strategy	Carbon Classification
Equity	50.0	Passive - 35.0	60.0	Expected long-term growth in capital and income in excess of inflation over the long term.	Low carbon
		Active - Direct 10.0			Reduced carbon
		Active - Indirect 5.0			Low carbon
Multi-Asset Credit	10.0	Active 10.0	20.0	Diversified approach to fixed income investing which aims to deliver equity like returns with a lower level of risk.	Low carbon
Index Linked Gilts	10.0	Passive - 10.0	20.0	Low risk (relative to the liabilities) asset that provides inflation linked income and protection from falling interest rates.	Non-low carbon
Property	20.0	Direct - 14.0	30.0	Provides diversification from equities and fixed income. Generates investment income and provides some inflation protection.	Reduced carbon
		Pooled fund - 6.0			Reduced carbon
Sustainable Infrastructure	5.0	Limited Partnership - 5.0	10.0	Asset class provides additional diversification from traditional asset classes. Generates sustainable, reliable income with significant linkage to inflation. Provides risk mitigation from declining fossil fuel usage.	Zero carbon
Bereavement Services	5.0	Limited Partnership - 5.0	10.0	ESG priority allocation. Focus on investments with strong ESG and, in particular, low carbon credentials.	Low carbon
Timberland					Zero carbon
Private Equity					Reduced carbon

The financial assumptions specified in the FSS are consistent with those in the ISS. The FSS documents these specific processes and:

- establishes a clear and transparent fund-specific strategy;
- supports the requirement for maintaining as nearly constant primary employer contribution rates as possible;
- sets contributions as to ensure the solvency and long term cost efficiency of the Fund;
- ensures that regulatory requirements regarding the setting of contributions are met; and
- takes a prudent longer-term view of funding the Fund's liabilities.

The ISS and FSS are reviewed following the Fund's triennial valuation to ensure that investment objectives are aligned to the Fund's valuation. Updates are also undertaken on an ongoing basis to reflect any changes agreed by the Pensions Advisory Panel.

The actuarial valuation as at 31 March 2022 showed the Fund's assets covered 109% of liabilities compared with 103% at the previous valuation as at 31 March 2019. The discount rate for the three years commencing 1 April 2023 was set at 4.05% per year.

Investment assets

Asset Class	Manager	31 Mar 2022 £000	31 Mar 2023 £000	% of Total Fund	Strategic Benchmark %	Difference %
Global Equity	BlackRock	382.3	336.2	16.7	17.5	-0.8
	Legal & General	335.2	331.8	16.5	17.5	-1.0
	Newton	256.9	261.6	13.0	10.0	3.0
	Comgest	97.9	93.4	4.6	5.0	-0.4
Total Global Equity		1,072.3	1,023.0	50.8	50.0	0.8
Diversified Growth	BlackRock	191.4	141.5	7.0	0.0	7.0
Total Diversified Growth		191.4	141.5	7.0	0.0	7.0
Absolute Return Bonds	BlackRock	132.3	133.4	6.6	0.0	6.6
Total Absolute Return Bonds		132.3	133.4	6.6	0.0	6.6
Multi-Asset Credit	TBC	0.0	0.0	0.0	10.0	-10.0
Total Multi-Asset Credit		0.0	0.0	0.0	10.0	-10.0
Core Property	Nuveen	234.3	201.8	9.8	14.0	-4.2
Total Core Property		234.3	201.8	9.8	14.0	-4.2
Pooled Property	Invesco	31.4	33.1	1.6	1.5	0.1
	M&G	42.9	43.2	2.1	1.5	0.6
	Frogmore	8.0	6.8	0.3	1.5	-1.2
	Brockton	6.8	6.8	0.3	1.5	-1.2
Total Pooled Property		89.1	89.9	4.5	6.0	-1.5
Sustainable Infrastructure	Glennmont	19.9	26.4	1.3	1.1	0.2
	Temporis	50.1	86.6	4.3	3.5	0.8
	BlackRock	6.0	15.9	0.8	0.4	0.4
Total Sustainable Infrastructure		76.0	129.0	6.4	5.0	1.4

Asset Class	Manager	31 Mar 2022 £000	31 Mar 2023 £000	% of Total Fund	Strategic Benchmark %	Difference %
ESG Priority Allocation	Darwin	20.40	21.6	1.1	0.5	0.6
	Blackstone	28.10	48.2	2.4	3.5	-1.1
	BTG Pactual	30.40	35.7	1.8	1.0	0.8
Total ESG Priority Allocation		78.9	105.5	5.2	5.0	0.2
Index Linked Gilts	BlackRock	88.2	89.0	4.4	5.0	-0.6
	Legal & General	91.9	63.9	3.2	5.0	-1.8
Total Index Linked Gilts		180.1	152.9	7.6	10.0	-2.4
Derivatives	Newton	9.4	5.3	0.3	0.0	0.3
Total Derivatives		9.4	9.8	0.0	0.0	0.0
Total Fund		2,063.8	2,013.8	100.0	100.0	-

Excludes regulatory capital held within the London CIV (classed as an investment) and other minor investment balances. Including current assets and liabilities, the total value of the fund is £2,045.2 million.

As at 31 March 2023, the actual asset allocation for equities was 50.8%, overweight to benchmark by 0.8%, a reduction from 2021-22, where the Fund was 6.8% overweight. Following the decision, in December 2022, to remove absolute return bonds and diversified growth from the Strategic Asset Allocation, both of these asset classes were overweight. In contrast the new allocation to Multi-Asset Credit is underweight ahead of manager appointments being made in 2023-2024. Core and pooled property were underweight to their target allocations by 4.2% and 1.5%, respectively. All were well within the agreed tolerances from their benchmark target.

In late 2022, an allocation was made to the ESG Priority Allocation via investment in the Temporis Renewable Energy Fund. Therefore at the end of March 2023 the total ESG allocation was in line with the strategic benchmark target of 5%.

Commitment to reducing fossil fuel exposure

In December 2016, the Fund's investment strategy committed to reduce its exposure to fossil fuels within its investments over time. Southwark was one of the first LGPS funds to make such a commitment and placed the Fund at the forefront of sustainable fossil fuel aware investment.

Since then, the Fund has made significant progress towards this long-term ambition, as set out below. In September 2017, the Fund agreed a long-term plan for the reduction of investment exposure to fossil fuels. This plan set out the goals and objectives for the Fund over the short, medium and long-term. This was refreshed in December 2021 and December 2022, with the following targets set in order to meet the revised target of achieving net zero carbon in the Fund's investments by 2030.

The Fund's implementation period for fossil fuel reduction is split into three main time horizons, encompassing short, medium and long-term objectives.

- The short term: one-four years (2022-2026);
- The medium term: five-seven years (2027–2029); and
- The long-term: year eight (2030).

The plan is separated into four key areas of focus and consideration for the Fund:

- Investment Strategy and Actuarial Valuation;
- Fund Management and Implementation;
- Local Authority Collaboration and Pooling; and
- Engagement.

The Fund has continued to make progress in its efforts to reduce its exposure to fossil fuel and to reduce the carbon footprint of its investments in order to reach net-zero in line with the public commitment made in December 2016.

The Fund has adopted the following approach in respect of its investment in equities in order to progress on its net-zero targets:

- All Investments in passive developed market equities have been moved to passive low carbon equity funds.
- All investments in active emerging market equities have been moved to low carbon equity funds.
- All active equities have been fully divested from fossil fuel investments in March 2021 and a restriction has been placed on the portfolio preventing further investments in these companies or their industry peers.

Changes in line with the above approach have resulted in the Fund's 50% strategic allocation to equities now being entirely in low carbon holdings (including all direct and indirect equity investments), whilst maintaining exposure to equities in a manner that continues to achieve the required level of risk and return.

During the year ending 31 March 2023, the total funds moved from legacy to zero/ low/ reduced carbon investment categories totalled £145.6 million.

Below is a summary of the changes during the 2022-2023 financial year:

Equities

During the financial year, the Fund moved £115 million from the Legal and General Investment Management (LGIM) Low Carbon Target Index Fund to the LGIM Low Carbon Transition Fund.

The transition represented 50% of the investment in the LGIM Low Carbon Target Index Fund with the balance expected to be transferred in 2023-2024 following a review of the performance and carbon footprint of the Low Carbon Transition Fund.

New Allocation to Sustainable Infrastructure

During the year, the Fund invested £30.6 million in the Temporis Renewable Energy Fund. This holding adds to the Fund's strategic allocation to sustainable infrastructure, and is defined as zero-carbon. The Fund has underlying investments in solar and wind power assets and technologies in the UK, which will help to drive the transition to a low carbon economy.

Pooling and Reducing Fossil Fuel Exposure

The Fund is fully committed to collaboration with other local authority partners and in 2015 invested in the London Collective Investment Vehicle (LCIV). The LCIV is a collaborative venture between local authorities to deliver benefits of investment scale and efficiency to the participating Funds. Southwark is committed to engaging with the LCIV to move it forward in relation to fossil fuel divestment to ensure that the fossil fuel exposure of the Pension Fund continues to reduce as assets are pooled.

Carbon footprint measurement

Fund's approach to carbon footprint measurement

A comprehensive review of the carbon footprint of all assets in the Fund was undertaken as at 31 March 2023. The Fund continues to measure fossil fuel exposure through carbon footprint calculations, which is the most commonly used metric for assessment. This metric seeks to assess

the carbon footprint of an underlying investment, which can be attributable to the Fund's specific investments. For example, the greenhouse gas (GHG) emissions of a particular company can be apportioned to equity investors based upon their proportional equity share of that company. For the purpose of the carbon footprint measurement for all asset classes, the Fund has only considered Scope 1 and Scope 2 emissions at this stage.

The carbon footprint assessment covers all investment classes in the Fund. Where available, particularly in the case of listed equities, the company has obtained Scope 1 and Scope 2 emissions data from Sustainalytics, a Morningstar company.

In the case of private assets, including property and sustainable infrastructure, the Fund has relied on standalone carbon footprint data being provided by the respective Fund managers. In certain instances, the Fund has had to rely on proxy data and approximations in the absence of availability of data for assets like index-linked gilts or certain sustainable infrastructure assets. The Fund recognises the challenges in availability of carbon footprint data and takes a more conservative approach to the use of proxies and estimations.

The availability of data for carbon footprint calculations will continue to increase as more and more organisations start reporting under regulatory mandates such as TCFD ((Taskforce on Climate-Related Financial Disclosures) and SFDR (Sustainable Finance Disclosure Regulation) .

Reduction in carbon footprint during the year ending 31 March 2023

The initial assessment was undertaken as at 30 September 2017 and formed the starting point and a baseline for the Fund's carbon footprint and net-zero target. Since September 2020, the Fund has been undertaking the calculations on a quarterly basis.

The results for 31 March 2023 show that the improvement in the carbon footprint reduction for the Fund continues. Since September 2017, the Fund's weighted carbon intensity (of Scope 1 and 2 emissions) has reduced by 60%, which is an improvement of ~16% year-on-year on an absolute basis compared to the year ending 31 March 2022 (43.2% reduction compared to September 2017).

The reduction in carbon footprint during the year ending 31 March 2023 was driven by a combination of movement of capital, both existing capital commitments and transition from legacy investments to Zero and Low Carbon investments, and more accurate carbon calculations available for the Fund's Core Property assets.

The carbon footprint reduction infographic (set out overleaf) has been produced in order to demonstrate the changes in the composition of the Fund in terms of carbon emissions against the reduction of the carbon footprint over time. The graph is intended for use as a way of easily displaying the Fund's progress towards net zero.

Future plans

In the upcoming year 2023-24, the Fund will implement an investment of £100 million in a low-carbon multi asset credit fund, funded by divestment from existing legacy investments in absolute return bond and diversified growth funds. The Fund is working to identify and agree low carbon replacements for the residual holdings in these legacy investments.

During Q1 and Q2 2023-24, additional investments are also planned in the following categories:

- LGIM Low Carbon Transition Fund, which will be funded from assets held in the LGIM Low Carbon Target Index fund.
- Approximately £30 million in alternative investment with low carbon and strong ESG credentials under the ESG Priority Allocation; building on the existing investments made in 2021-22, which will be funded from legacy assets

The Fund will continue to develop and enhance the accuracy of the Fund's carbon footprint assessment over time. One of the primary issues the Fund faces in terms of measurement is the lack of standardised disclosure across bodies.

The fund's ability to assess carbon intensity across assets should improve with the widening disclosures through TCFD) and other reporting standards and frameworks.

The Fund will continue to work with its investment advisor and investment managers to source more reliable data and best practice in undertaking carbon footprint calculations. The development of software products for carbon footprint measurement and wider ESG data management will also help in improving data availability and its accuracy over time.

Market and Investment Performance

The economic climate across the globe presented challenges for the LGPS sector not seen since the global financial crisis in 2008.

The lingering effects of the pandemic, war in Europe, rising geopolitical tensions and concerns over the banking sector all weighed on the downside. In developed markets, inflation was a major concern, hitting multi-decade highs reaching double-digits in the UK and Europe and just under this in the US. Central banks undertook a very aggressive programme of rate hikes in an effort to combat this. Such a 'perfect storm' caused falls in both equity and bond markets.

In terms of equities, still the largest component of most local authority pension funds, the World index lost around 1% over the year. The first half of the year saw significant falls globally hitting a low point in October, but the losses were pared back over the course of the second half. The energy sector was the best performing area over the year whilst cost-of-living pressures and high interest rates hampered the technology and consumer discretionary sectors. Geographically, Europe was the best performer over the course of the year helped by a brighter economic outlook on the back of falling oil prices. The UK posted a positive return over the period due in part to a higher exposure to the energy sector and part due to a weak Pound that bolstered the overseas earnings of many of the index constituents. North America performed relatively poorly due in a large part to its high weighting to technology.

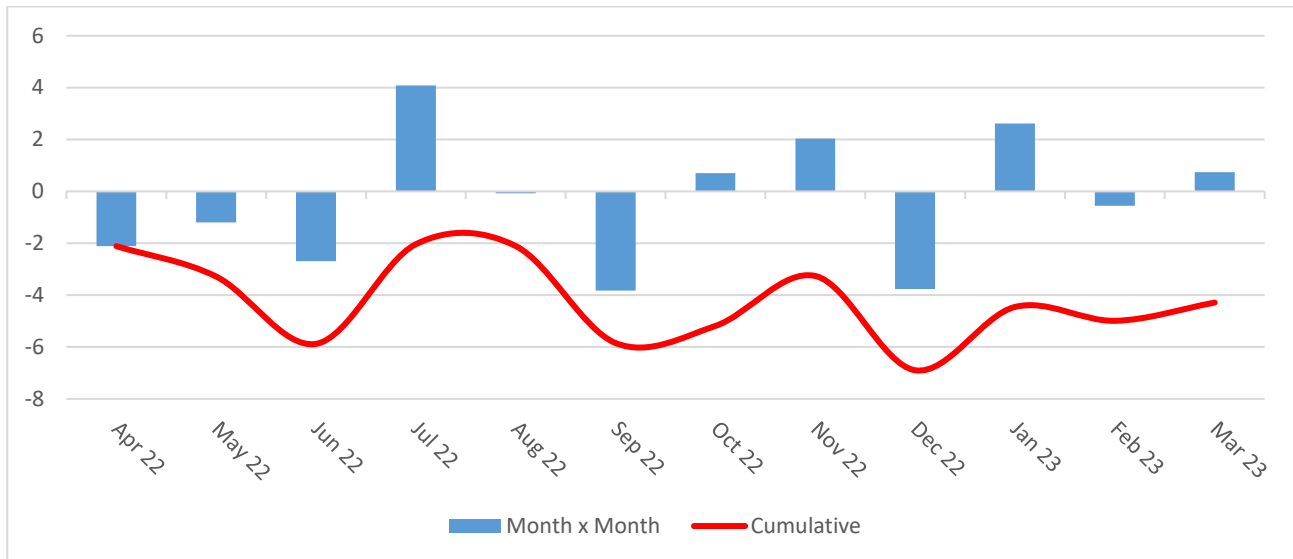
With central banks' hawkish responses to high and rising inflation, yields on both government bonds and credit rose sharply. UK Government bonds were particularly hard-hit mid-year following the Government's surprise unfunded fiscal package which saw the benchmark 10-year yield top 4.5% before falling back following the Bank of England's temporary long-bond buying intervention. Inflation linked bonds performed especially poorly with the rise in short-term interest rates having a much greater negative bearing than higher inflation.

Property was the worst performing of the major asset classes. Having enjoyed a very strong post pandemic year last year, commercial property values fell significantly in 2022-2023 in response to a bleak economic outlook and higher interest rates. Capital values fell across the three main real estate sectors but were most pronounced within the industrial sector.

Southwark Fund Performance

2022-2023

Like other funds in the sector, Southwark Pension Fund had a torrid year. The Fund recorded a return of -4.3% the progression of which is shown below:



The Fund does not operate in a vacuum however and it sets itself a challenging benchmark against which to measure the performance of its assets and, by implication, the performance of the asset managers, members and officers managing it on a day-to-day basis.

In 2022-2023, the Fund posted a return 3.7% behind this benchmark, the biggest measure of underperformance since the global financial crisis in 2008 and on the back of two years of strong outperformance. There were three two key components to the underperformance:

- The Fund holds a relatively small investment in a diversified growth fund managed by BlackRock. This portfolio is intended to provide some diversification from our volatile equity investments delivering a measure of downside return protection by delivering cash-like (positive absolute) returns any market environment. The strategy disappointed over the year producing a negative return. During the year, the Pension Advisory Panel reviewed this holding and made the decision to unwind the position and invest the proceeds in assets better suited to the long-term investment strategy of the Fund.
- The Fund invests a significant proportion, almost a fifth of its assets in real estate. As discussed above, property suffered significant falls in capital value during the year. Our investments recorded a return of almost -9% over the year, some 15% behind benchmark contributing more than half of the overall relative shortfall. Property is a long-term investment that performs in often multi-year cycles. It forms an important part of the Fund's strategy as it encompasses several important characteristics including stable and consistent income (like bonds) with the opportunity to achieve capital appreciation, inflation protection and diversification benefits (it exhibits low correlation with the investment returns of other assets). Therefore, it is not appropriate to view the efficacy of such an asset class through the lens of a single year outcome.

Medium Term

Over the last three and five years, the Fund has achieved excellent absolute returns of 9.5%p.a. and 6.8%p.a. respectively. Returns over both periods have been around 0.5%p.a. behind the benchmark. This modest underperformance has been impacted by the latest-year outcome.

Longer Term

Over the last ten and twenty years, the Fund has delivered very strong annualised returns of 8.2%p.a. and 8.6%p.a. respectively. Over both these periods however, returns have been behind benchmark with the underperformance largely attributable to a legacy of disappointing 'active' manager performance.

It is worth reiterating that as long-term investors:

- Returns on the Fund's assets must outpace inflation (since pension payments increase in line with this)
- The Fund must endeavour to ensure that the value of its assets exceeds that of its liabilities (any surplus ensures scheme affordability)
- The Fund must seek to achieve a return on the assets that is sufficient, over the long-term, to meet the funding objectives set every three years by the actuary

The Fund has succeeded in meeting, and exceeding, these three key measures over the long-term.

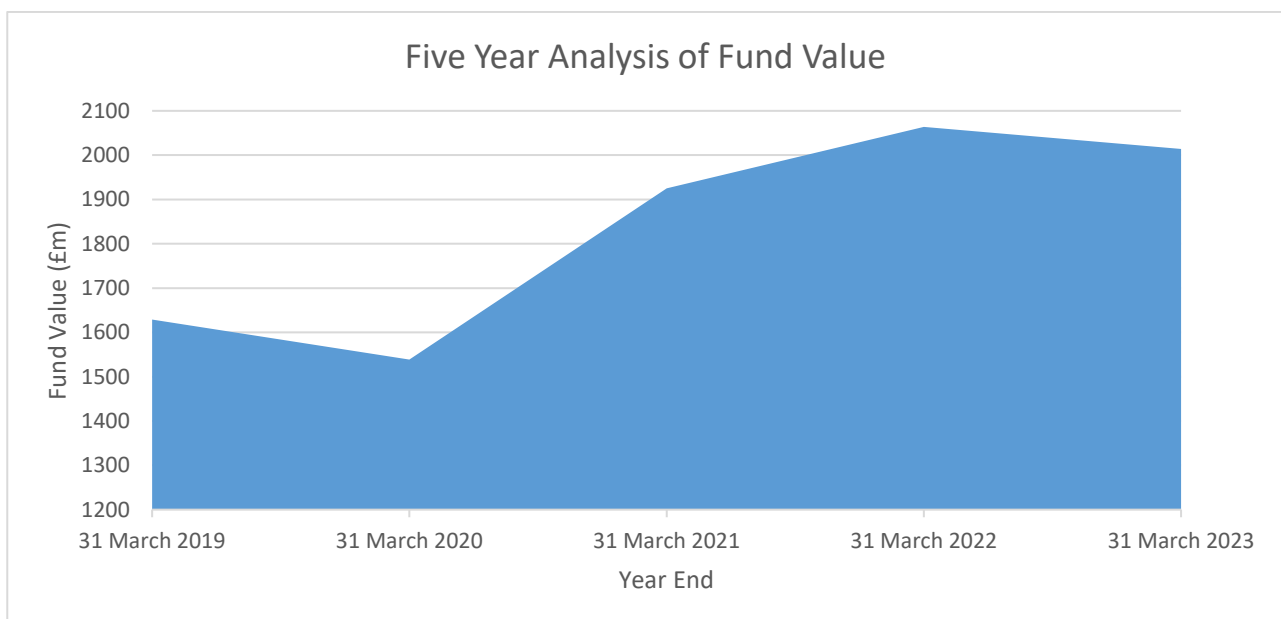
Performance Versus Peers

Whilst every fund within the LGPS has its own unique investment profile, there is nonetheless greater homogeneity within UK local authority funds than there is within other institutional investment sectors. There is some merit therefore in comparing how the Swithark Fund's performance compares to that of other LGPS funds in the UK.

The latest year notwithstanding, Swithark's performance compares extremely favourably against the LGPS average as the table below shows

	Fund %p.a.	Universe %p.a.	Relative %p.a.	Rank
One Year	-4.3	-1.6	-2.7	70
Three Year	9.5	9.5	0.0	43
Five Year	6.8	5.9	0.8	8
Ten Year	8.2	7.3	0.8	7
Twenty Year	8.6	8.4	0.2	25

Medium-term (five and ten years), the Fund ranks in the top 10% of outcomes and over the last two decades, the Fund ranks in the top quartile of LGPS fund returns.



Investment performance – fund manager performance by asset class

The benchmarks used to measure performance and the targets set are as follows:

Investment Manager	1 year portfolio return %	1 year actual benchmark return %	Relative difference %	Target return
Blackrock Absolute Return Bond Fund	0.69	2.72	-2.03	3M SONIA
Blackrock Balanced	-9.66	-6.6	-3.05	Custom BlackRock Balanced Benchmark
Blackrock Dynamic Diversified Growth Fund	-3.61	2.7	-6.32	3M SONIA
Blackrock Global Renewable Power Fund	19.38	10.0	9.38	Absolute Return 10%
Blackrock ICS GBP Liquidity Fund	2.22	2.2	-0.01	SONIA OVERNIGHT
Blackstone Strategic Capital Holdings II	17.67	12.0	5.67	Absolute Return 12%
Brockton Capital	-2.79	15.0	-17.79	Absolute Return 15% p.a.
BTG Pactual Open Ended Core US Timberland LP	20.05	6.0	14.05	Absolute Return 6%
Comgest Global Emerging Markets Plus	-5.21	-4.9	-0.30	MSCI Emerging Markets - Net Return
Darwin Bereavement Services Fund	5.84	6.0	-0.16	Absolute Return 6%
Frogmore	-20.38	8.0	-28.38	Absolute Return 8% p.a.
Glenmont Clean Energy Europe Fund III	37.50	10.0	27.50	Absolute Return 10%
Invesco Real Estate	5.28	8.0	-2.72	Absolute Return 8% p.a.
Legal and General	-7.53	-7.9	0.36	Legal and General FTSE Custom Blend
M&G Investments	0.71	8.0	-7.29	Absolute Return 8% p.a.
Newton Equities	0.24	1.6	-1.35	FTSE All World Index +3%
Nuveen Real Estate	-12.65	7.0	-19.65	IPD ALL Properties + 1%
Temporis Impact Strategy V LP	2.22	10.0	-7.78	Absolute Return 10%
Temporis Operational Renewable Energy Strategy	20.33	10.0	10.33	Absolute Return 10%
Temporis Renewable Energy Fund	NA	NA	NA	Absolute Return 7%

The past twelve months have produced strong overall absolute returns for the Fund for the second year in a row, adding over £138m to the value of the Fund's assets. However, it is always valuable to compare the holdings with each individual investment manager to their respective benchmarks, in order to better monitor their performance. The table below sets out performance over one, three and five year periods to 31 March 2023.

Investment performance – fund manager performance

The benchmarks used to measure performance and the targets set are as follows:

Investment Manager		1 YEAR %	3 YEARS %	5 YEARS %
Blackrock Balanced	Portfolio	-9.66	10.57	6.61
	Benchmark	-6.60	10.66	6.66
	<i>Relative</i>	<i>-3.05</i>	<i>-0.08</i>	<i>-0.05</i>
Blackrock Dynamic Diversified Growth Fund	Portfolio	-3.61	3.89	2.16
	Benchmark	2.72	2.78	3.27
	<i>Relative</i>	<i>-6.32</i>	<i>1.11</i>	<i>-1.11</i>
Brockton Capital	Portfolio	-2.79	4.52	6.92
	Benchmark	15.00	15.00	15.00
	<i>Relative</i>	<i>-17.79</i>	<i>-10.48</i>	<i>-8.08</i>
Frogmore	Portfolio	-20.38	-7.87	-4.51
	Benchmark	8.00	16.50	16.50
	<i>Relative</i>	<i>-28.38</i>	<i>-24.37</i>	<i>-21.01</i>
Invesco Real Estate	Portfolio	5.28	3.68	2.76
	Benchmark	8.00	8.00	8.00
	<i>Relative</i>	<i>-2.72</i>	<i>-4.32</i>	<i>-5.24</i>
Legal and General	Portfolio	-7.53	11.31	8.13
	Benchmark	-7.89	10.18	6.85
	<i>Relative</i>	<i>0.36</i>	<i>1.13</i>	<i>1.28</i>
M&G Investments	Portfolio	0.71	0.95	1.89
	Benchmark	8.00	8.00	8.00
	<i>Relative</i>	<i>-7.29</i>	<i>-7.05</i>	<i>-6.11</i>
Newton Equities	Portfolio	0.24	14.68	10.69
	Benchmark	1.59	18.91	12.88
	<i>Relative</i>	<i>-1.35</i>	<i>-4.23</i>	<i>-2.1</i>
Nuveen Real Estate	Portfolio	-12.65	3.97	4.96
	Benchmark	7.00	8.81	6.97
	<i>Relative</i>	<i>-19.65</i>	<i>-4.84</i>	<i>-2.01</i>
Blackrock Absolute Return Bond Fund	Portfolio	0.69	3.32	NA
	Benchmark	2.72	3.36	NA
	<i>Relative</i>	<i>-2.03</i>	<i>-0.04</i>	<i>NA</i>
Glenmont Clean Energy Europe Fund III	Portfolio	37.50	14.58	NA
	Benchmark	10.00	10.00	NA
	<i>Relative</i>	<i>27.50</i>	<i>4.58</i>	<i>NA</i>
Temporis Operational Renewable Energy Strategy	Portfolio	20.33	11.26	NA
	Benchmark	10.00	10.00	NA
	<i>Relative</i>	<i>10.33</i>	<i>1.26</i>	<i>NA</i>
Temporis Impact Strategy V LP	Portfolio	2.22	NA	NA
	Benchmark	10.00	NA	NA
	<i>Relative</i>	<i>-7.78</i>	<i>NA</i>	<i>NA</i>
Blackrock Global Renewable Power Fund	Portfolio	19.38	NA	NA
	Benchmark	10.00	NA	NA
	<i>Relative</i>	<i>9.38</i>	<i>NA</i>	<i>NA</i>
Blackrock ICS GBP Liquidity Fund	Portfolio	2.22	NA	NA
	Benchmark	2.23	NA	NA
	<i>Relative</i>	<i>-0.01</i>	<i>NA</i>	<i>NA</i>
Blackstone Strategic Capital Holdings II	Portfolio	17.67	NA	NA
	Benchmark	12.00	NA	NA
	<i>Relative</i>	<i>5.67</i>	<i>NA</i>	<i>NA</i>
BTG Pactual Open Ended Core US Timberland LP	Portfolio	20.05	NA	NA
	Benchmark	6.00	NA	NA
	<i>Relative</i>	<i>14.05</i>	<i>NA</i>	<i>NA</i>
Comgest Global Emerging Markets Plus	Portfolio	-5.21	NA	NA
	Benchmark	-4.91	NA	NA
	<i>Relative</i>	<i>-0.30</i>	<i>NA</i>	<i>NA</i>
Darwin Bereavement Services Fund	Portfolio	5.84	NA	NA
	Benchmark	6.00	NA	NA
	<i>Relative</i>	<i>-0.16</i>	<i>NA</i>	<i>NA</i>
Temporis Renewable Energy Fund	Portfolio	NA	NA	NA
	Benchmark	NA	NA	NA
	<i>Relative</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>

Individual Investments Compared to Benchmarks

Across mainstream asset classes, 2022-2023 proved to be a difficult year, as described in the market and financial performance section of this report. For the Fund's equity allocation, in absolute terms, only Newton's global equity mandate achieved a positive return while all of the other equity managers (Blackrock, LGIM and Comgest) made negative returns. The Blackrock Absolute Return Bond Fund achieved a positive return but this was behind the benchmark return by some margin.

In contrast to 2021-2022, the Fund's direct property manager, Nuveen, had a significant reversal in performance: having delivered the strongest return over 2021-2022 (24.97%) the portfolio returned -12.65%: confirming that Property was the worst performing of the major asset classes.

The strongest returns for the year (both in absolute and relative terms) could be found in the Fund's private market investments, specifically in the renewable infrastructure and ESG priority funds. However, given that allocations to a number of the ESG priority funds were made relatively recently and are not yet fully drawn down, returns are difficult to assess and are not meaningful in the short term, with many still in the investment periods of their life cycles. Over time, their returns will be monitored in order to ensure they can contribute to both the investment return and carbon footprint reduction targets of the overall Fund.

6. SCHEME ADMINISTRATION 2022-23

Value for money statement

Southwark Pension Services has had a challenging year; namely the change to new UPM pensions admin and payroll software. The migration took place in May 2022 and took some time for full training to staff to be implemented, and further work from the Data team to ensure the system is working to the best of its abilities. However, with the 'business as usual' approach adopted, the Admin team continue to work across systems and find new ways to work to ensure deadlines are met.

Upgrade work on the pension fund's website is underway where full control of the website will come back under in-house management. With some help from the Fund's communication partners, some website re-design will be completed to create a new website that is more accessible, intuitive and easier to navigate. The upgraded website will also provide a wider range of online facilities to help members make decisions that are more informed. The expected completion date is the end of 2023.

The Training and Development team is currently providing training to all Southwark Pension Services staff and the pension team at Haringey Council. This is on a trial basis, but with the idea to expand this to other London boroughs if successful.

As part of the implementation of new payroll and admin software, a Pensions Payroll team has also been in post since May 2022. This new pension fund service has proven to be highly successful in delivering a monthly payroll and managing all taxation matters with HMRC. The team has been able, as part of software improvements, to implement a new Single Payment system which allows retirement lump sums and death grant payments to be paid weekly, instead of monthly.

Summary of activity

Data quality

The majority of Southwark employers (including the Council and schools) have now onboarded for automated data movement using the UPM Employer Hub. This system enables employers to submit their monthly pension returns securely online, check their employee data and allows the Pension Fund's Data team a much higher level of scrutiny to identify data gaps with schools and other employers. The pension fund has its own Data Management Strategy designed to quickly identify data gaps and put in place data improvement plans to rectify, wherever necessary. The Data team will be working closely with employers to ensure they understand their responsibilities in providing accurate data each month.

Cyber security

The new admin and payroll software has been extensively tested and secured against cyber-attack. The system only allows access from pre-approved IP addresses, limited to the Southwark Council network. User access is controlled by the Pension Fund's Data team, who have implemented strict password and user access protocols.

Data is stored in cloud servers hosted by the IT provider in a UK data centre. ISO certifications (27001, 20000, 22301, 14001 and 9001) provide confidence that software operations meet the highest levels of information security, IT service management, business continuity and environmental compliance and quality, and have the Government's Impact Level 3 accreditation rating, the highest security rating available. A secondary disaster recovery database is continuously running, so in the event of cyber-attack or other downtime, the system can switch to a backup with limited loss of data. Every keystroke on the new system is fully logged and audited.

Staffing/structure

During 2022-2023, Pension Services had a number of changes in senior management with appointments into the roles of Pensions Administration Manager, First Contact Manager and Pensions Payroll Manager:

<https://southwarkpensions.co.uk/about-us/organisation-structure>

Pensions Services continues to recruit to a number of vacancies, including for Data Officers, Senior Pensions Officer and Pensions Officer positions.

Member communication

The [pension fund website](#) is designed to help members navigate their work-life journey and understand key pension events whilst on that journey. The website works in harmony with the [National LGPS website](#) and the main [Southwark Council website](#) where members can find basic information, guidance and updates.

2022-2023 Annual Benefit Statements for deferred members (i.e. former Southwark staff) were issued on time. Statements for active members are delayed and being issued in phases due to additional data checking that is deemed necessary.

A separate exercise for those affected by Annual Allowance is also underway where all affected members will be informed of any breach during 2022-2023 and any potential associated tax charges.

The McCloud judgement

There has been a major step forward in the implementation of the “McCloud” age discrimination remedy with the Public Service Pensions and Judicial Offices Bill laid before Parliament on 19 July 2021. The Bill amends the Public Service Pensions Act and its equivalent in Northern Ireland, making provision to rectify unlawful discrimination in the way in which the LGPS reformed in 2014 and includes retrospective measures. As expected, it confirms the remedy period as covering membership from the date of reform 1 April 2014 to 31 March 2022 for eligible members.

The Bill enables LGPS Regulations to make provision for final salary benefits to be paid in respect of the remedy period (1 April 2014 to 31 March 2022), i.e. it is the enabling legislation, which will allow the LGPS Regulations to implement the McCloud remedy. Draft LGPS Regulations were expected by the 1st October 2023.

However, no implementation date is specified for the LGPS. The recent written ministerial statement stated that the Government’s intention is that regulations for the LGPS will come into force around 1 April 2023.

The Bill can be accessed by following this link:

<https://bills.parliament.uk/publications/42278/documents/567>

More information about this judgment and next steps will appear on [the News section](#) of the LBS Pension Fund’s website.

Key performance data

Performance indicators

Although the LGPS is a national scheme, it is administered in-house by Southwark Pension Services. Southwark Council has a statutory responsibility to administer pension benefits payable from the pension fund on behalf of participating employers and past/present members and their dependants.

Pension Services work to an agreed set of statutory targets and the table below sets out performance against those statutory targets for each of the key tasks during the period 1 April 2022 to 31 March 2023.

As a result of new IT, software and processes, Pension Services aims to benchmark future service standards in line with guidance set out by CIPFA. Ongoing change and business transformation across Southwark Council has a direct impact on pension fund administration, and Pension Services is working closely alongside HR, employers and other stakeholders on developing new end-to-end processes to benefit members.

Process	Legal requirement (from notification)	No. of cases completed	Within target	% achieved in legal deadline
Notify retirement benefits	Within one month from date of retirement	410	398	97%
Provide retirement estimate/quote on request	Within two months of request (unless earlier request issued in last 12 months)	250	235	94%
New starter notification to member joining LGPS	Within two months of joining scheme, subject to notification received from employer	462	450	97%
Inform member who left scheme of leaver rights and options	Within two months of notification of leaving, from employer	253	249	98%
Obtain transfer details for transfer in, calculate and provide quote	Two months from date of request	120	111	92%
Provide transfer out (CETV) request	Three months from date of request	243	193	79%
Calculate and notify dependants about death benefits	As soon as is practicable, but within two months from date of death notification	110	108	98%

The source of key performance data included in this report comes from the former pension's admin system (Altair) and new UPM software, in place from May 2022.

Other information

Membership of the Fund

The Fund provides pensions for:

- Employees of Southwark Council;
- Employees of a number of admitted bodies, i.e. organisations that participate in the LGPS via an admission agreement. Examples of admitted bodies are not for profit organisations with a link to the council, and contractors who have taken on the council's services and therefore staff have been transferred; and

- Employees of scheduled bodies, i.e. organisations that have the right to be a member of the LGPS under the regulations (e.g. schools/academies).

Membership has increased over the last twelve months. The number of former employees and retired staff has remained fairly stable over the past 3 years.

Membership	2019-20	2020-21	2021-22	2022-23
Active	6,888	7,029	6,700	7,647
Pensioner	7,887	8,003	8,236	8,512
Deferred	10,932	9,276	9,209	9,032
Totals	25,707	24,308	24,145	25,191

During 2022-23 there were 457 new pensioners as detailed below:

Type of Retirement	2021-22	2022-23
Early Payment	194	127
Ill Health	15	12
Normal	173	237
Redundancy	34	9
Dependents	NA	72
Total	416	457

Employers in the Fund

The table below summarises the number of active employers in the Fund analysed by scheduled bodies and admitted bodies during the financial year.

There are no ceased employers with outstanding liabilities. The Fund has a policy in place which provides that all ceasing admitted bodies' liabilities are subsumed into the Council's share of the Fund. As part of this policy, each admitted employer is given a fixed employer contribution rate on commencement in the Fund. Any variances in the rate over time are either treated as a saving or a cost to the contracting department. The purpose of this policy is to ensure that the full cost of pensions is reflected in contracts and those uncertainties around pension costs do not influence the contract price quoted by providers.

	Active
Scheduled body*	33
Admitted body	19
Total**	52

* Includes Southwark Council **excludes Schools

Participating employers

The admitted and scheduled bodies participating in the Fund at 31 March 2023 and sets out the contributions paid by employees and employers during the year for each employer.

How the service is delivered

Key services provided

A new and secure Member Self-Service Portal is currently under development/test. This will allow members to find out about their pension, check and update personal data held about them.

A newsletter for retired colleagues was sent out in April 2023, which updated members about pension increases and provided other relevant information; for example about planning ahead (system changes), the State Pension, protecting personal data and keeping personal data up-to-date. It also made members aware of greater use of the electronic communications available in the future.

A number of information sessions (training via Southwark's Learning Source) were provided to targeted groups of staff. Work continues to improve pension fund information across Southwark Council, making it easier for members, prospective members and employers to find relevant information. Content is regularly reviewed and updated where appropriate or needed.

Key information sources

Information type	Method of Communication	Frequency of Issue	Distribution	Stakeholder
LGPS Booklet	Electronic, paper based, intranet and website	At joining and on major LGPS changes	Emailed, posted to employees by employer, website	Active members
Retirement Presentations	Face-to-face, MS Teams	Regularly as requested	Advertised on intranet and invitations via HR team	Active members
Pension Roadshows and drop in sessions	Face-to-face, MS Teams	On request and on major LGPS changes	Advertised on intranet and website	Active members
Pension Fund Annual Report	Southwark Council website, pensions website	Annual	On request	All members
Annual Benefit Statements	Email to all active members, via post to deferred members	Annual	Employee email address for active members, home addresses for deferred	Active and Deferred members
Website information and links, including Member Self Service (MSS)	Electronic, via pensions website	Continuously available	Advertised on communication	All members
Newsletters	Email or by post, as 'appropriate'	Quarterly or Biannually	Electronic, via email or by post, as 'appropriate'	All members

Member and Employer query phone calls	By telephone	Continuously available via the First Contact Centre	Telephone	All members and employers
Pensions Savings Statements	Email or by post, as 'appropriate'	Annual	Electronic, via email or by post, as 'appropriate'	Active members
High earner and/or Lifetime Allowance letters	Email or by post, as 'appropriate'	Annual	Electronic, via email or by post, as 'appropriate'	Members who may be affected in the future
Pensions Increase Newsletter	Post	Annual	Post	Pensioners
Key Horizon Projects	Southwark Council website, pensions website	As required	On the Pensions website	Affected members

Internal Dispute Resolution Procedure (IDRP)

Occasionally, a disagreement over a decision Southwark Council made about a pension will be made. The IDRP gives members the right to apply to an adjudicator who will consider their case and decide if the original decision was correct or needs to be overturned.

IDRP is a two-stage process.

Under stage one, the adjudicator will consider all the points raised in determining a decision. A member will need to carefully consider why in their view the LGPS Regulations were not applied. If a member disagrees with the stage one decision outcome, the matter can be appealed. The stage one decision and casefile will pass to a different adjudicator approved to undertake the stage two appeal, who will assess any additional information and/or evidence afresh and make a final decision on behalf of Southwark's Administering Authority.

The Pensions Ombudsman (TPO)

TPO deals with complaints and disputes of maladministration. Anyone using TPO's 'Early Resolution Service' may not be required to have first used the LGPS' IDRP if the parties are happy with that.

TPO is impartial and looks at all the facts without taking sides. It has legal powers to make decisions that are final, and binding and enforceable in a Court of law. There is no charge for using TPO's service as it is funded by grant-in-aid, paid by the DWP.

TPO can be contacted on 0800 917 4487

Address: 10 South Colonnade, Canary Wharf, E14 4PU

Website: www.pensions-ombudsman.org.uk

Money Helper

Money Helper joins up money and pensions guidance to make it quicker and easier to find the right help.

Money Helper brings together the support and services of three government-backed financial guidance providers: the Money Advice Service the Pensions Advisory Service and Pension Wise.

Money Helper can be contacted at <https://www.moneyhelper.org.uk/en>

Local Government Pension Scheme (LGPS) Regulations

All LGPS Regulations are held within Pension Services, 2nd Floor, 160 Tooley Street, London, SE1 2QH and are available for inspection upon request.

FURTHER INFORMATION

Queries regarding benefits or cost of membership

lbspensions@southwark.gov.uk

Telephone: 0207 525 4924

Queries regarding Fund investments and accounts

Caroline Watson
Senior Finance Manager – Treasury and Pensions
Telephone: 020 7525 4379
Email: Caroline.Watson@southwark.gov.uk

Or you can write to us at:

The London Borough of Southwark Pension Fund
Finance
Treasury and Pensions
Second Floor, Hub 1
PO BOX 64529,
London, SE1P 5LX

External sources of information

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

Telephone: 0345 600 5666
Website: www.thepensionsregulator.gov.uk

Website: www.gov.uk/contact-pension-service
To find out about State Pension eligibility, payments and complaints and to find your local pension centre.

Website: www.gov.uk/find-pension-contact-details

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

Telephone: 0800 731 0193

7. GLOSSARY

Absolute return fund

A fund that aims to deliver positive returns in all market conditions, with low volatility. This is achieved through the use of financial instruments such as derivatives to protect against downside risk and generate higher returns.

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 HMRC 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 Fund's AVC provider up to a maximum of 15% of total earnings.

Admitted body

An organisation whose staff can become members of the Fund by virtue of an admission made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

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 standard against which the performance of an investment can be compared. Asset allocation benchmarks vary from peer group to customized benchmarks tailored to a particular fund's requirements.

CARE scheme

Career Average Revalued Earnings - where pension is built up as a proportion of pensionable pay - 1/49th for each year in the LGPS 2014. Therefore, instead of calculating

pension with reference to final salary on retirement, the LGPS 2014 uses the average of annual earnings over membership of the LGPS. Earlier years are revalued by inflation (CPI) to ensure that each year's salary is of equivalent real value.

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

Corporate bonds are when an investor loans money to an entity for a defined period for either a fixed or a variable interest rate.

Custody

Administering of securities by a financial institution. The custodian bank 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.

Diversified Growth Funds (DGF)

Investment products that utilise a variety of liquid assets, strategies and investment horizons in order to deliver real capital appreciation over the medium to long-term

Emerging markets

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

Environmental, Social & Governance (ESG)

Environmental, social and governance (ESG) factors are non-traditional metrics that can affect an investment's performance.

Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems, e.g. carbon emissions, environmental regulations, water stress and waste; Social issues relate to the rights, well-being and interests of people and communities, e.g. labour management, health and safety, and product safety; Governance issues relate to the management and oversight of companies and other investee entities, e.g. board, ownership and pay.

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.

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.

Index-linked gilts

Gilts where the principal is indexed to inflation on a daily basis in terms of the Consumer Price Index (CPI).

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.

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.

Scheduled body

An organisation that has the right to become a member of the Local Government pension Scheme under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

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: Pension Contributions 2022-23

Employer	Employee Contributions £'000	Employer Contributions £'000	Total Contributions £'000
Administering Authority			
London Borough of Southwark	13,652.90	42,216.12	55,869.02
Scheduled Bodies			
Ark All Saints Academy	84.41	189.85	274.25
Ark Globe Academy	71.58	154.67	226.24
Ark Walworth Academy	89.40	200.46	289.86
Bacons College	108.94	298.24	407.18
Charles Dickens School	43.96	129.52	173.48
Compass Free School	32.30	94.85	127.14
Dulwich Hamlet Junior School	32.00	96.10	128.10
The Belham School (part of Dulwich Hamlet)	43.10	131.69	174.79
Goose Green	38.69	123.22	161.91
GalleyWall Primary City of London Academy	31.86	92.80	124.66
Harris Academy Bermondsey	50.67	139.83	190.50
Harris Academy at Peckham	61.35	169.01	230.36
Harris Peckham Free School Peckham	17.23	50.18	67.42
Harris Primary Academy Peckham Park	13.26	38.71	51.98
Harris Boys Academy	51.53	143.56	195.09
Harris Girls Academy	46.62	124.40	171.01
Harris Primary East Dulwich	25.43	76.84	102.27
John Donne	49.38	155.97	205.35
John Keats	16.73	57.91	74.63
Judith Kerr Free School	24.62	78.86	103.48
Kingsdale Foundation School	37.97	110.97	148.94
Lyndhurst Primary Academy	28.28	83.54	111.82
Newlands Academy (AET)	27.05	83.07	110.12
Redriff Primary Academy	68.22	213.51	281.74
Southwark Diocesan Board of Education	21.87	53.75	75.62
Spa Education Trust (Spa Academy)	78.33	260.38	338.72
St. Paul's CE Primary	25.54	92.49	118.03
The Angel Oak Academy (Gloucester)	18.72	69.40	88.13
The Charter School Educational Trust (ED)	70.24	193.65	263.89
The Charter School Educational Trust (ND)	110.90	293.41	404.31
The Park College	4.10	13.27	17.38
University Academy Engineering South Bank (UAESB)	61.88	155.25	217.14
Total Scheduled Bodies	1,486.19	4,169.36	5,655.55
Admitted Bodies			
AiP - Ivydale School	1.20	5.20	6.40
AiP - Cherry Gardens	1.26	4.87	6.13
Brandon Trust	10.47	25.40	35.87
Browning Tenant Management	5.80	15.02	20.82
Centre for Literacy Primary Education (CLPE)	1.26	5.24	6.51
D Brice & Co Ltd	1.04	3.76	4.81
Energy Kidz	1.22	4.86	6.08
Leather Market AdBod	14.46	18.92	33.38
LunchTime Company(Lunchtime-Charles Dickens)	2.18	7.47	9.65
MITIE	0.82	3.88	4.70
PFI VEOLIA ES	105.22	368.01	473.23
Principles Catering LTD	0.68	2.27	2.95
South London Gallery - SLG	10.43	17.10	27.53
Southwark Law Centre	84.54	274.91	359.45
Sports and Leisure Management (SLM)	7.35	27.52	34.87
Topmark Sports & Coaching LTD	1.17	3.99	5.16
Tree Tops Clubs - Dog Kennel Hill	0.17	0.78	0.95
Tree Tops Clubs - Ivydale	0.90	2.93	3.83
WestGate Cleaning - Camelot	0.59	2.00	2.59
WestGate Cleaning - Goose Green	1.10	4.91	6.01
Total Admitted Bodies	251.85	799.05	1,050.89
Grand Total	15,390.93	47,184.93	62,575.46

Appendix 2: Pension Fund Statement of Accounts 2022-23

Independent auditor's report to the members of Southwark Council on the consistency of the pension fund financial statements of the London Borough of Southwark Pension Fund included in the Pension Fund Annual Report (the Report).

Opinion

We have examined the pension fund financial statements of the Southwark Pension Fund (the 'pension fund') for the year ended 31 March 2023 included within the pension fund annual report, which comprise the Fund Account, the Net Assets Statement, and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the pension fund financial statements are consistent, in all material respects, with the audited financial statements of the London Borough of Southwark for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

We have not considered the effects of any events between the date the auditor's report on the financial statements of the London Borough of Southwark was signed, and the date of this statement.

Respective responsibilities of the Strategic Director of Finance and the auditor

As explained more fully in the Statement of the Strategic Director of Finance, the Strategic Director of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Our responsibility is to state to the members of the London Borough of Southwark our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the financial statements of the London Borough of Southwark.

We also read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information comprises the information included in the pension fund annual report, other than the pension fund financial statements and our auditor's statement thereon.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the financial statements of the London Borough of Southwark describes the basis of our opinion on those financial statements.

Use of this auditor's statement

This statement is made solely to the members of the London Borough of Southwark, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of the London Borough of Southwark those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Southwark and the members of the London Borough of Southwark, as a body, for our work, for this statement

Joanne Brown

Joanne Brown, Key Audit Partner for and on behalf of Grant Thornton UK LLP, Local Auditor
London

Date: 30 April 2024

PENSION FUND

2022-23

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2022-23		Restated 2021-22	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	7	(62,575)		(62,851)	
Transfers in from other pension funds	8	(3,285)		(8,419)	
Subtotal			(65,860)		(71,270)
Benefits	9	71,702		65,135	
Payments to and on account of leavers	10	4,322		6,915	
Subtotal			76,024		72,050
Net reduction/(addition) from dealing with members of the fund			10,164		780
Management expenses	11		11,785		8,980
Net additions including fund management expenses			21,949		9,760
Returns on investments					
Investment income	12	(18,488)		(7,425)	
Taxes on income	12	520		2,058	
Profit and losses on disposal of investments and changes in market value of investments	14a	79,281		(199,518)	
Net return on investments			61,313		(204,885)
Net (increase)/decrease in the net assets available for benefits during the year			83,262		(195,125)
Opening net assets of the scheme			(2,143,749)		(1,948,624)
Net assets of the scheme available to fund benefits as at 31 March			(2,060,487)		(2,143,749)

NET ASSETS STATEMENT

	Note	Restated	
		31 March 2023 £000	31 March 2022 £000
Long Term Investments		150	150
Investment assets	12	2,039,131	2,120,541
Total Net Investments		2,039,281	2,120,691
Current assets	13	28,849	28,223
Current liabilities	13	(7,644)	(5,165)
Net assets of the scheme available to fund benefits as at 31 March		2,060,487	2,143,749

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

NOTES TO THE PENSION FUND STATEMENTS

1. INTRODUCTION

The Pension Fund (the fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council).

The following description of the fund is a summary only. For more detail, reference should be made to the pension fund annual report and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

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

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

It is a contributory defined benefit scheme that provides pensions and other benefits for former employees of the council and other admitted organisations.

The overall investment strategy is the responsibility of the council as the administering authority of the fund. This responsibility is delegated to the Strategic Director of Finance and Governance, taking account of the advice of the pensions advisory panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a local pension board to assist the council in its role as scheme manager of the Pension Fund. The board meets on a quarterly basis and has its own terms of reference. Board members are independent of the pensions advisory panel.

b) Membership

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

Organisations participating in the fund include:

- Scheduled bodies, which are largely academies and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

	31 March 2023	31 March 2022
Number of contributors to the fund	7,647	6,995
Number of contributors and dependants receiving allowances	8,512	8,167
Number of contributors who have deferred their pensions	9,032	10,067
Total contributors	25,191	25,229

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2022. For the 2022-23 financial year primary employer contribution rates ranged from 15.5% to 20.7% of pensionable pay, plus additional deficit payments where appropriate.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014 the scheme became a career average scheme.

	Service pre 1 April 2008	Service post 31 March 2008	From 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is accrued at 1/49 of pensionable pay for the year
Lump sum	Automatic lump sum of 3 x pension. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

In August 2022, the pension fund made a self-declaration to the Pensions Regulator with regard to the late processing and issuance of member Annual Benefit Statements, due to issues with data migration to the new Pensions Administration system. The Pensions Regulator was informed of the plans to rectify and agreed no further action past these plans were required. These statements were then issued in tranches, with the final statements going out in December 2022.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2022-23 financial year and its position at year-end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2024. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 20.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in employee contributions. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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

iii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

iv) Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

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

d) Fund account – benefits payable

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

e) Fund account – taxation

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

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All administrative expenses are accounted for on an accruals basis. All staff costs of pensions administration are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Asset Statement

g) Financial assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the funds own cash are at amortised cost.

A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 13. Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

h) Freehold and leasehold property

Property assets have been included in the accounts at fair value as at 31 March each year. The valuation of direct property managed by Nuveen is carried out annually by an independent valuer.

i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Loans and Receivables

Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable at the year-end date plus accrued interest.

m) Financial liabilities

The fund recognises financial liabilities at fair value or amortised cost as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (note 19).

o) Additional voluntary contributions

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC assets are not included in the accounts but are disclosed as a note (note 6).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies in note 3 the council has had to make critical judgements about complex transactions and those involving uncertainty about future events. There were no such critical judgements made during 2022-23.

Directly Held Property

The fund's investment portfolio includes a number of directly owned properties which are leased commercially to various tenants with rental periods between six months and five years. The fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a premium paid at the inception of the lease).

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The statements contain estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations, as indicated in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The approximate impact of changing the key assumptions on the present value of retirement benefits are: - an 0.1% change in the discount rate would be +/- £51m - an 0.1% change in the rate at which salaries are projected to increase would be +/- £5m - an 0.1% change in the rate of pension increase would be +/- £47m - a one year change in mortality assumptions would be +/- £94m
Freehold and leasehold property and pooled property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 3.6% would be an increase or decrease in the value of property of £12m, on a fair value of £323m.

6. EVENTS AFTER THE REPORTING DATE

There have been no material adjusting events after the reporting date.

7. CONTRIBUTIONS RECEIVABLE

Contributions represent the total amount receivable from employees and employers of the scheme.

	2022-23			2021-22		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark Council	(13,653)	(42,216)	(55,869)	(13,422)	(43,435)	(56,857)
Admitted bodies	(252)	(799)	(1,051)	(243)	(736)	(979)
Scheduled bodies	(1,486)	(4,169)	(5,656)	(1,365)	(3,650)	(5,015)
Total	(15,391)	(47,185)	(62,575)	(15,030)	(47,821)	(62,851)

Contributions receivable from employers are shown below:

	2022-23 £000	2021-22 £000
Employee's Contributions	(15,391)	(15,030)
Employer's Contributions		
Normal	(39,830)	(33,732)
Deficit funding	(5,964)	(10,667)
Early retirement strain	(1,391)	(3,422)
Total contributions from employers	(47,185)	(47,821)
Total	(62,575)	(62,851)

During 2021-22 employees made additional voluntary contributions (AVCs) of £0.2m (£0.3m in 2020-21). The value of the AVCs at 31 March 2022 was £3.6m (£3.6m at 31 March 2021).

8. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2022-23 £000	2021-22 £000
Individual transfers	(3,285)	(8,419)
Total	(3,285)	(8,419)

9. BENEFITS PAYABLE

The table below shows the types of benefit payable by category:

	2022-23 £000	2021-22 £000
Pensions	55,560	53,130
Commutation of pensions and lump sum retirement benefits	13,596	9,588
Lump sums - death benefits	2,546	2,417
Total	71,702	65,135

The table below shows the total benefits payable grouped by entities:

	2022-23 £000	2021-22 £000
Southwark council	66,862	61,941
Admitted bodies	3,195	2,316
Scheduled bodies	1,645	878
Total	71,702	65,135

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2022-23 £000	2021-22 £000
Refund of contributions	132	263
Individual transfers out to other schemes	4,190	6,652
Total	4,322	6,915

11. MANAGEMENT EXPENSES

	2022-23 £000	2021-22 £000
Administrative costs	3,580	1,891
Investment and management expenses	7,715	6,531
Oversight and governance costs	490	558
Total	11,785	8,980

The 2022-23 fee for external audit services for the pension fund is £49K (£46.3k in 2021-22). The increase in administration costs is due to 21-22 failing to include the recharge related to council services as it was stated elsewhere in the accounts and additional costs in 22-23 for Civica/UPM software implementation.

12. INVESTMENT INCOME

	2022-23 £000	2021-22 £000
Dividends from equities	(6,515)	(4,171)
Pooled funds	(2,343)	(849)
Pooled property funds	(1,048)	(650)
Net rent from properties	(8,582)	(6,072)
Clearance of historic debtor balances	-	4,317
Total before taxes	(18,488)	(7,425)
Taxes on income	520	2,058
Total after taxes	(17,968)	(5,367)

12a. PROPERTY INCOME

	2022-23 £000	2021-22 £000
Rental Income	(10,144)	(7,950)
Direct operating expenses	1,562	1,878
Net rent from properties	(8,582)	(6,072)

13. EXTERNAL AUDIT COSTS

	2022-23 £000	2021-22 £000
Payable in respect of external audit	49	46

14. INVESTMENT ASSETS

	31 March 2023 £000	31 March 2022 £000
		Restated
Long Term Investments		
Equities	150	150
Total	150	150
Investment Assets		
Equities	267,242	256,900
Pooled Funds		
Fixed Income	133,397	132,310
Equities	429,580	480,221
Diversified Growth	130,023	191,389
Property	92,967	94,001
Infrastructure	211,991	133,709
Private Equity	50,363	38,475
Other	42,895	43,027
Unitised Insurance Policy		
Fixed Income	152,894	180,108
Equities	331,929	335,240
Property	194,310	230,600
Other investment balances	1,541	4,561
Total Investment Assets	2,039,131	2,120,541
Net Investments	2,039,281	2,120,691

14a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

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. The table below shows the movement in investment assets and the change in market value for the year:

	Opening balance £000	Purchases £000	Sales £000	Change in market value £000	31 March 2023 £000
Equities	256,900	65,969	(59,316)	3,689	267,242
Pooled funds	1,019,131	123,217	(148,586)	93,457	1,087,219
Pooled property funds	94,001	2,248	(557)	(2,726)	92,967
Unitised insurance policy	515,348	661,389	(661,392)	(119,492)	395,852
Property	230,600	7,511	(9,605)	(34,195)	194,310
	2,115,980	860,334	(879,456)	(59,267)	2,037,590
Other investment balances	4,561			(20,014)	1,541
Total	2,120,541			(79,281)	2,039,131

	Opening balance	Purchase	Sales	Change in market value	31 March 2022
	£000	£000	£000	£000	£000
Bonds	233,525	144,070	(145,490)	24,795	256,900
Equity	625,731	618,057	(286,529)	61,872	1,019,131
Pooled funds	67,784	21,802	(857)	5,272	94,001
Pooled property funds	810,917	12,119	(381,343)	73,655	515,348
Unitised insurance policy	187,470	9,226	-	33,904	230,600
Property	233,525	144,070	(145,490)	24,795	256,900
	1,925,427	805,274	(814,219)	199,498	2,115,980
Other investment balances	5,393			20	4,561
Total	1,930,820			199,518	2,120,541

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, the council's active equity fund manager, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The valuation of direct property managed by Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified, and the valuation took place on 31 March 2023. All properties have been valued at market value.

The investment strategy statement can be accessed on the council's website.

14b. INVESTMENTS ANALYSED BY FUND MANAGER

The market value of assets (excluding cash and other investment balances) managed by the investment managers at the balance sheet date 31 March 2023 is set out in the table below. The fund has no investment assets managed by the regional asset pool, the London Collective Investment Vehicle (LCIV).

	31 March 2023		31 March 2022	
	£000	%	£000	%
BlackRock	747,969	37%	843,247	40%
Legal and General Investment Managers	395,853	19%	427,128	20%
Newton Investment Management	267,226	13%	256,898	12%
Nuveen	197,339	10%	234,299	11%
Comgest	93,431	5%	97,913	5%
Temporis	112,108	6%	56,980	3%
M&G	43,231	2%	42,927	2%
Invesco	33,068	2%	32,554	2%
BTG Pactual	35,743	2%	30,380	1%
Blackstone	50,363	2%	38,475	2%
Darwin	21,620	1%	20,428	1%
Glennmont	26,001	1%	19,930	1%
Frogmore	6,799	0%	8,011	0%
Brockton Capital	6,839	0%	6,810	0%
Total	2,037,590	100%	2,115,980	100%

The following investments represent more than 5% of investment assets at 31 March 2023.

Name of investment	Fund manager	31 March 2023	% of investment assets	31 March 2022	% of investment assets
		£000	%	£000	%
Low Carbon Target	BlackRock	336,149	16%	382,308	18%
Global Equities	Newton	267,226	13%	256,898	12%
Direct Property	Nuveen	197,339	10%	234,299	11%
Low Carbon Transition	Legal and General	166,572	8%	-	0%
Low Carbon Target	Legal and General	165,357	8%	335,240	16%
Diversified Growth Fund	BlackRock	130,023	6%	191,389	9%
Absolute Return Bond Fund	BlackRock	133,397	7%	132,310	6%

14c. PROPERTY HOLDINGS

	31 March 2023	31 March 2022
	£000	£000
Opening balance	230,600	187,470
Additions:		
Purchases	7,734	7,130
Subsequent expenditure	2,661	2,096
Disposals	(19,513)	-
Net increase in market value	(27,172)	33,904
Closing Balance	194,310	230,600

15. ANALYSIS OF DERIVATIVES

The fund does not currently have exposure to derivatives.

16. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13, according to the quality and reliability of information used to determine fair values.

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

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

Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – unit trusts	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - property unit trusts and limited partnerships	Level 3	Valued at fair value as provided by the fund manager.	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates
Unitised Insurance Policies	Level 2	Closing bid price where bid and offer prices are published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
		Closing single price where single price published		
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals; Independent market research; Nature of tenancies; Covenant strength for existing tenants; Assumed vacancy levels; Estimated rental growth; Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

The following table shows the fair value valuation hierarchy of fund assets and liabilities.

Value as at 31 March 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Equities	267,242	150	-	267,392
Pooled Funds				
Fixed Income	-	133,397	-	133,397
Equities	-	429,580	-	429,580
Diversified Growth	-	130,023	-	130,023
Property	-	-	92,967	92,967
Infrastructure	-	21,620	190,370	211,990
Private Equity	-	-	50,363	50,363
Other	-	42,895		42,895
Unitised Insurance Policy				
Fixed Income	-	152,894	-	152,894
Equities	-	331,929	-	331,929
Total Financial Assets	267,242	1,242,488	333,700	1,843,430
Non-financial assets at fair value through profit and loss				
Property	-	-	194,310	194,310
Grand Total	267,242	1,242,488	528,010	2,037,740

Value as at 31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Equities	256,900	150	-	257,050
				-
Pooled Funds				-
Fixed Income	-	132,310	-	132,310
Equities	-	480,221	-	480,221
Diversified Growth	-	191,389	-	191,389
Property	-	-	94,001	94,001
Infrastructure	-	20,428	113,281	133,709
Private Equity	-	-	38,475	38,475
Other	-	43,027		43,027
Unitised Insurance Policy				
Fixed Income	-	180,108	-	180,108
Equities	-	335,240	-	335,240
Total Financial Assets	256,900	1,382,873	245,757	1,885,530
Non-financial assets at fair value through profit and loss				
Property	-	-	230,600	230,600
Total	256,900	1,382,873	476,357	2,116,130

The following table shows the reconciliation of fair value measurements within level 3.

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	31 March 2023 £000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	94,001	2,248	(557)	(194)	(2,532)	92,966
Infrastructure	113,281	42,647	(2,684)	519	36,608	190,371
Private Equity	38,475	13,532	(6,431)	87	4,700	50,363
Non-financial assets at fair value through profit and loss						
Property	230,600	7,511	(9,605)	(11,910)	(22,286)	194,310
Total	476,357	65,938	(19,278)	(11,498)	16,490	528,010

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	31 March 2022 £000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	67,784	21,801	(857)	184	5,089	94,001
Infrastructure	41,248	71,892	(11,498)	225	11,414	113,281
Private Equity	-	29,078	(1,283)	(146)	10,826	38,475
Non-Financial assets at fair value through profit and loss						
Property	187,470	9,226	-	-	33,904	230,600
Total	296,502	131,997	(13,638)	263	61,233	476,357

Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges:

Value as at 31 March 2023	Assessed valuation range	Valuation as at 31 March 2023 £000	Value on increase £000	Value on decrease £000
Pooled Funds				
Property	5.9%	92,966	98,470	87,462
Infrastructure	4.6%	190,371	199,176	181,566
Private Equity	4.6%	50,363	52,692	48,034
Property	5.9%	194,310	205,813	182,807
Total		528,010	556,151	499,869

17. FINANCIAL INSTRUMENTS

The following table shows the classification of the Pension Fund's financial instruments:

	31 March 2022 £000	31 March 2021 £000
Financial assets		
Fair value through profit and loss		
Equities	267,392	257,050
Pooled Investments	998,248	1,019,131
Pooled Property Investments	92,967	94,001
Unitised Insurance Policy	484,823	515,348
Cash	26,432	24,255
Other Investment Balances	1,541	4,561
Debtors	3,371	300
Total	1,874,774	1,914,646
Financial liabilities		
Amortised cost		
Creditors	(3,471)	(4,529)
Net Total	1,871,303	1,910,117

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

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

Responsibility for the fund's risk management strategy rests with the Strategic Director of Finance and Governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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

Price risk

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

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All security investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased. In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible:

2022-23 - asset type	31 March 2023 £000	Change %	Value on increase £000	Value on decrease £000
Fixed Income	286,291	5.1%	300,896	271,685
Equities	1,028,901	12.9%	1,161,804	895,998
Diversified Growth	130,023	6.1%	137,940	122,106
Property	92,967	5.9%	98,471	87,463
Infrastructure	211,990	4.6%	221,795	202,185
Private Equity	50,363	4.6%	52,692	48,034
Other	42,895	4.6%	44,879	40,911
Total	1,843,430		2,018,477	1,668,382

2021-22 - asset type	31 March 2022 £000	Change %	Value on increase £000	Value on decrease £000
Fixed Income	312,418	5.4%	329,289	295,547
Equities	1,072,511	13.0%	1,211,937	933,085
Diversified Growth	191,389	6.3%	203,447	179,331
Property	94,001	3.6%	97,385	90,617
Infrastructure	133,709	3.2%	137,988	129,430
Private Equity	38,475	3.2%	39,706	37,244
Other	43,027	3.2%	44,404	41,650
Total	1,885,530		2,064,156	1,706,904

The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table above.

Interest rate risk

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

Fixed interest securities are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2023	125,746	127,003	124,488
As at 31 March 2022	312,418	315,542	309,294

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

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

Overseas equities, fixed interest securities and futures, cash in foreign currencies and some elements of pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of assets exposed to currency risk had there been a 6.3% strengthening or weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value £000	Change %	Value on foreign exchange rate increase £000	Value on foreign exchange rate decrease £000
As at 31 March 2023	372,764	6.3%	396,248	349,280
As at 31 March 2022	649,073	7.3%	696,455	601,691

Credit risk

This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid. The fund's entire investment portfolio is therefore exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

Liquidity risk

This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the global custodian and holds cash relating to investment activities, the other is the Pension Fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

19. FUNDING ARRANGEMENTS

Statement of the Actuary for the year ended 31 March 2023

Introduction

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013 (the 'LGPS Regulations').

The LGPS 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 2022 by Aon, in accordance with Regulation 62 of the LGPS Regulations.

Actuarial Position

1. The valuation as at 31 March 2022 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2022 (of £2,125.4M) covering 109% of the liabilities.
2. The valuation also assessed each individual employer's (or group of employers') position separately. Contribution requirements were determined based on the principles in the Fund's Funding Strategy Statement and are set out in Aon's report dated 31 March 2023 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (including ill-health early retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2026 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2023	21.1	-
2024	21.2	-
2025	21.2	-

3. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution changes and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).
4. The valuation was carried out using the projected unit actuarial method for most employers, allowing for future increases in pensionable pay. The main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	4.05% p.a.
Discount rate for periods after leaving service	4.05% p.a.
Rate of pay increases	3.80% p.a.
Rate of increase to pension accounts *	2.30% p.a.
Rate of increases in pensions in payment * (in excess of Guaranteed Minimum Pension)	2.30% p.a.

* In addition, a 10% uplift was applied to the past service liabilities to make allowance for short-term inflation above the long-term assumption.

The assets were valued at market value.

5. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S3 'Heavy' mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for future improvements based on the 2021 Continuous Mortality Investigation Projections Model, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	21.5	24.1
Future pensioners aged 45 at the valuation date	22.8	25.6

Further details of the assumptions adopted for the valuation, including the other demographic assumptions, are set out in the actuarial valuation report

6. The valuation results summarised in paragraph 1 above are based on the financial position and market levels at the valuation date, 31 March 2022. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2023 to 31 March 2026 were signed on 31 March 2023. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2025 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
8. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2022. 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 actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, the London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

9. The report on the actuarial valuation as at 31 March 2022 is available on the Fund's website at the following address: <https://southwarkpensions.co.uk/library/actuarial-valuation-report>

Aon Solutions UK Limited
May 2023

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2022.

	31 March 2023 £m	31 March 2022 £m
Fair value of net assets	2,064	2,125
Actuarial present value of promised retirement benefits	(1,911)	(2,597)
Surplus/(deficit) in the fund as measured for IAS 26	153	(471)

20. POST BALANCE SHEET EVENTS

No such material events have occurred.

21. CURRENT ASSETS

The current assets of the fund are analysed as follows:

	31 March 2023 £000	31 March 2022 £000
Contribution due from employers	191	-
Contributions due - employers	2,811	3,642
Sundry debtors	3,371	300
Prepayments	6	-
Tax	-	26
Cash at managers	17,291	13,705
Cash and bank	5,179	10,550
Total	28,849	28,223

22. CURRENT LIABILITIES

The current liabilities of the fund are analysed as follows:

	31 March 2023 £000	31 March 2022 £000
Benefits	(2,347)	(6)
Professional fees	(151)	(138)
Investment fees	(3,320)	(4,391)
Taxes	(913)	(558)
Other	(913)	(72)
Total	(7,644)	(5,165)

23. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Fund Manager	Contributions Paid 2022-23	Market Value 31 March 2023	Contributions Paid 2021-22	Market Value 31 March 2022
	£000	£000	£000	£000
Aegon UK	249	3,644	249	3,605
Total	249	3,644	249	3,605

24. AGENCY SERVICES

The council has not acted as an agent for any employers of the fund in 2022-23.

25. RELATED PARTY TRANSACTIONS

Through its administration of the fund, the fund has a related party interest with the council. The council charged the fund £0.9m in 2022-23 (£0.9m in 2021-22). Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance and a small proportion of the costs of this post were apportioned to the fund in 2022-23 and 2021-22.

No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 11.

The Pension Advisory Panel (PAP) offers advice to the Strategic Director of Finance and Governance. Five members of the PAP are currently active members of the pension fund whilst one member is in receipt of pension benefits. Members of the PAP are required to make a declaration each meeting which is recorded in the minutes and are available on the council website. In 2022-23 there was one declaration for some elected members and officers of the council regarding the decisions around the actuarial valuation of the pension fund and the annual budget setting process of the council.

The council is also the single largest employer of members of the Pension Fund and contributed £42.2m to the fund in 2022-23 (£43.4m in 2021-22).

25A. KEY MANAGEMENT PERSONNEL

Job Title	Increase in IAS 19 Liability to 31st March 2023 £000	Increase in IAS 19 Liability to 31st March 2022 £000
	Strategic Director of Finance and Governance	4
Departmental Finance Manager - Corporate	2	6
Senior Finance Manager - Treasury and Pensions	10	23
Pensions Manager	13	8
Total	29	42

26. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2023 totaled £86.3m (31 March 2022: £101.6m).

These commitments relate to outstanding call payments due on property and infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

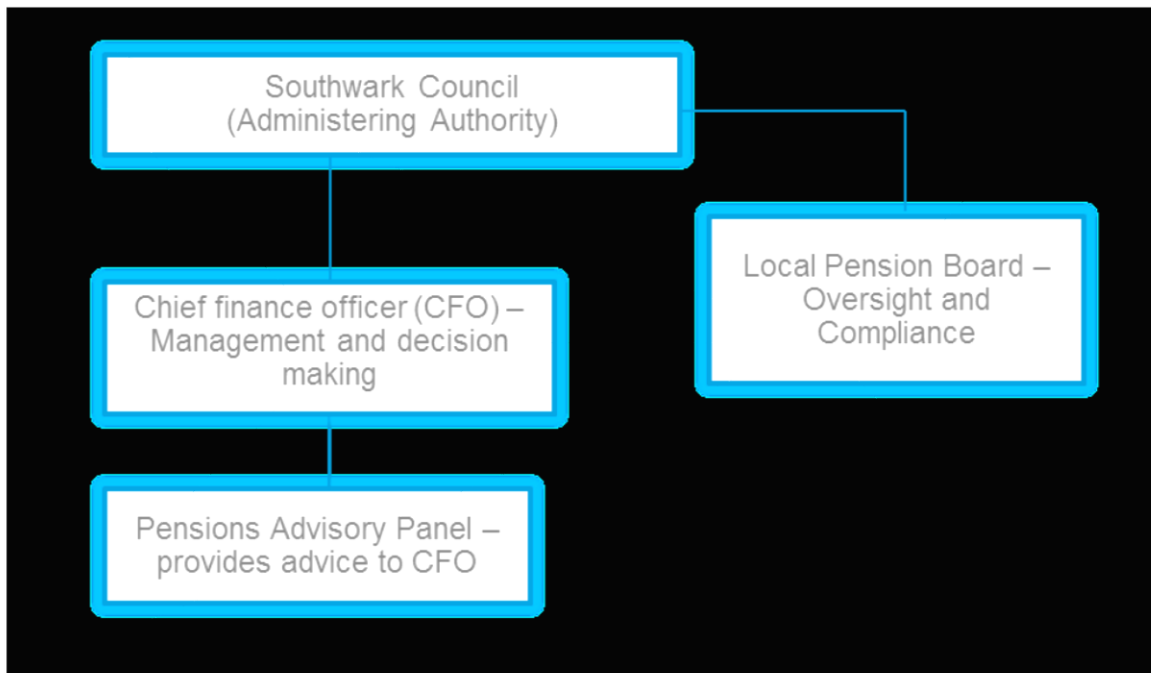
APPENDIX 3 – Link to Key Fund Documents

The funding strategy statement, investment strategy statement and communications strategy for the Fund can be accessed via the following link:

<https://southwarkpensions.co.uk/documents-library/policies>

APPENDIX 4 – Governance compliance statement

Background



Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires that an Administering Authority must prepare, maintain and publish a written statement setting out:

- Whether the Administering Authority delegates the function in relation to maintaining a pension fund to a committee, a sub-committee or an officer;
- The frequency of any committee or sub-committee meetings;
- The terms of reference, structure and operational procedures of the delegation; and
- 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:

Arrangements for maintaining a pension fund committee

Since 2004 this function has been delegated to the Pensions Advisory Panel (PAP), whose primary objective is to assist the Strategic Director of Finance and Governance in the management of the pensions function within the Council.

Frequency of meetings

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

Terms of reference, structure and operational procedures

The primary objective of the PAP is to provide advice to the Strategic Director of Finance and Governance in the management of the Fund. This will include the provision of advice on the following:

INVESTMENTS

1. Establishing and reviewing the strategic investment objectives;
2. Reviewing the definition of the investment return target most likely to satisfy this investment objective;
3. Considering what constraints, if any, should apply to the invested assets and monitor compliance;
4. Establishing and reviewing the strategic asset allocation (benchmark) that is likely to meet the investment return target;
5. Considering and reviewing the appropriateness of the Fund structure i.e. the delegation of powers to managers, setting boundaries for the managers' discretion and considering which manager return targets are likely to achieve the investment return target;
6. Monitoring the performance of the investment managers at least once every three months, and from time to time consider the desirability of continuing or terminating the appointment of investment managers. In monitoring performance of investment managers, the PAP should consider:
 - i The investments made by the managers;
 - ii Their input to the process and the value of their advice;
 - iii Investment returns and risk against established targets;
 - iv Manager compliance with the Fund's requirements; and
 - v Discussion of results with managers.
7. Monitoring risks;
8. Developing a responsible investment strategy;

FUNDING

9. Carrying out duties set out in the Regulations, in relation to actuarial valuations of the Fund;
10. Ensuring employer contributions are set accordingly and other relevant regulations are adhered to;
11. Considering applications, from external bodies, for membership of the Council's pension scheme;

GOVERNANCE

12. Monitoring of governance arrangements including regulatory compliance and implementation of audit recommendations;
13. Monitoring costs incurred in administering the Fund, including:
 - i. Management and other direct costs; and
 - ii. Transaction (dealing) costs.

BENEFITS ADMINISTRATION

14. Considering policy matters in relation to the Fund and the Council's early retirement policy;

15. Monitoring early retirements; and

16. Considering the effectiveness of the administering authorities' management of pension administration.

i. Three members (two members from the majority group and one member of the majority opposition) who have received the appropriate training; one of those members will chair the Panel (voting);

ii. Three officers (the Chief Finance Officer (CFO) (non-voting), an officer with specialist knowledge on finance and investments (voting) and an officer with specialist knowledge of pension administration (voting);

iii. Two independent advisers (non-voting); and

iv. A representative appointed by the constituent trade unions representing beneficiaries (non-voting).

Constitution of the Pensions Advisory Panel (PAP)

The PAP will be constituted as follows:

- Decisions should aim to be reached by consensus. Where agreement cannot be reached, then a majority vote will apply. Voting rights are restricted to members and officers (excluding the CFO), with the Chair having the casting vote if required.

- Decisions of the Panel will be treated as advice to the CFO.

- To be quorate, at least three voting members of the Panel must be present, plus at least one independent adviser. At least one of the voting members must be an officer.

Local Pension Board

1. The Panel will work closely with the Local Pension Board (the Board) to ensure the Fund is administered efficiently and effectively and will share with the Board reports and documents to enable the Board to meet its remit; and

2. The Panel will consider any reports the Board may produce in the course of their duties and respond accordingly within a reasonable period of time.

Conflicts of interest

1. All members of the PAP must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Panel;

2. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Panel. It does not include a financial or other interest arising merely by virtue of that person being a member of the Fund; and

3. On appointment to the Panel and following any subsequent declaration of potential conflict by a Panel member, the Administering Authority shall ensure that any potential conflict is effectively managed in line with both the internal procedures of the Panel's conflicts policy and the requirements of the Code. (i) Securing compliance with the LGPS

- regulations and other legislation relating to the governance and administration of the LGPS and any statutory pension scheme that is connected with it;
- (ii) Securing compliance with requirements imposed in relation to the LGPS and any connected scheme by The Pensions Regulator; and
- (iii) Such other matters as the LGPS regulations may specify.

Representation from employing authorities or members

When deciding on the composition of the PAP, 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 20 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.

The Local Pension Board

The Public Service Pensions Act (2013) required all Administering Authorities to establish a Local Pension Board (the Board) by 1 April 2015.

The Board has the responsibility to assist the Administering Authority to ensure the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:

The Administering Authority retains ultimate responsibility for the administration and governance of the Southwark Council LGPS. The role of the Board is to assist the Administering Authority to fulfil that responsibility.

The Board meets quarterly and the membership and work of the Board can be viewed on page 6 in the Annual Report of the Board.

The principles Principle Structure	Fully compliant?	Note
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.	Yes	
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.	See note	1
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable	
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not applicable	

Representation

That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure.

See note

1

These include:

- Employing authorities (including non-scheme employers, e.g., admitted bodies);
- Scheme members (including deferred and pensioner scheme members);
- Where appropriate, independent professional observers; and
- Expert advisers (on an ad-hoc basis).

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.

Yes

Selection and role of lay members

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.

Yes

Training/facility time/expenses

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.

See note

2

That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

Yes

That the Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

Yes

Meetings (frequency/quorum)

That an Administering Authority's main committee or committees meet at least quarterly.

Yes

That an Administering Authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. **Not applicable**

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 applicable**

Scope

That Administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. **Yes**

Publicity

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. **Yes**

Note 1

When deciding 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.

Note 2

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.

APPENDIX 7 – Post Pool Reporting

Introduction

The Fund is a member of the London Collective Investment Vehicle (LCIV). It does not hold any assets within the LCIV pool directly, however the Fund has passive investments held with Legal & General Investment Management and BlackRock which are held in an oversight arrangement and recognised as pooled assets. The Fund is therefore able to benefit from pooled fee savings.

The table below sets out the assets held within the oversight arrangement and those held outside the pool.

<u>Pool Oversight</u>	£000	
Low Carbon Equities - Passive	668,078	
Over 5 Years Index Linked Gilts	152,894	
Total Assets Under Pool Oversight	820,972	40.3%
<u>Non Asset-Pool Managed</u>		
Equities (directly held)	267,242	
Fixed Income	133,397	
Equities	93,431	
Diversified Growth	130,023	
Property	92,967	
Infrastructure	211,990	
Private Equity	50,363	
Other	42,895	
Property (directly held)	194,310	
Total Assets Managed Outside Pool	1,216,618	59.7%
Total Investment Assets	2,037,590	

Pool set up and running costs

The following table sets out the cumulative set up and running costs to date incurred by the Fund in its membership of LCIV. The cost of purchasing shares in LCIV is included in the set up costs. This cost is treated as an investment in the Fund accounts. However for the purposes of determining the total pool set up costs incurred by the Fund, this has been included above. Development fund costs are invoiced annually and are not broken down into detailed cost categories. The Fund has achieved net savings of £2.9 million to date.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£	£	£	£	£	£	£	£
Set up costs	175,000	25,000	25,000	65,000	85,000	85,000	85,000	545,000
Annual service charge	-	75,000	65,000	25,000	25,000	25,000	25,000	240,000
Total Costs	175,000	100,000	90,000	90,000	110,000	110,000	110,000	785,000
Fee savings	(535,126)	(601,487)	(384,777)	(534,000)	(578,000)	(583,000)	(480,000)	(3,696,390)
Net savings realised	(360,126)	(501,487)	(294,777)	(444,000)	(468,000)	(473,000)	(370,000)	(2,911,390)

Ongoing investment management costs

The following table sets out the investment management costs incurred during 2022-23. Direct costs are those payable to the investment managers and are based on assets under management. Indirect costs are fees payable to LCIV in relation to its oversight role with regard to the Fund's passive assets held by Legal & General Investment Management and BlackRock.

	Asset pool		Non-asset pool		Fund total
	Direct £	Indirect £	Direct £	Indirect £	£
Ad Valorem	360,955	40,891	7,313,509	-	5,622,630
% of investments held	0.018%	0.002%	0.364%	-	0.384%

LCIV – additional information

More information on the London CIV, including contact details, can be found at the London CIV website at www.londonciv.org.uk.