

Merton Council

Standards and General Purposes Committee

30 July 2018

Supplementary Agenda 3

6 Audited Final Accounts 2017/18
Additional Information in relation to Agenda Item 6

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London Borough of Merton

Standards and General Purposes Committee **30 July 2018**

Report to Pension Fund Advisory Committee **18 July 2018**

Wards: All

Subject: Merton Pension Fund – 2017-18 Annual Report

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor Owen Pritchard

Contact officer: Roger Kershaw

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RECOMMENDATION

Members are asked to note the content of this report and approve the attached

- (1) Merton Pension Fund Financial Statements and Annual Report 2017/18 - Appendix One.
- (2) Note the Letter of Representation as set out in Appendix One.
- (3) Note the External Auditor's Report as set out in Appendix One

The Purpose of the Report

This report presents to Committee the Merton Pension Fund's Annual Report and the Auditor Report for the year-ended 31 March 2018.

Report summary

The Council's external auditors Ernst & Young (EY) have completed their annual audit into the Pension Fund and provided an unqualified opinion. The audit report will be presented by EY at the Pension Fund Advisory Committee (PFAC) on the 18 July 2018 and will be signed off after presenting to the General Purpose Committee on the 30 July 2018. The Annual Report will be published on the Council's website from the 1 August 2018 and the deadline to publish the Annual Report is 1 December 2018.

1. CONTEXT

- 1.1 This report presents the audit report to the 2017-18 Annual Pension Fund Report and the Statement of Accounts. The Statement of Accounts has been prepared in accordance with The 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and CIPFA guidance on Accounting for Local Government Pension Scheme.
- 1.2 The external auditors Ernst and Young have completed their audit into the Pension Fund and provided an unqualified opinion. The audit report will be presented by EY to the General Purpose Committee on the 30 July 2018 and EY will sign the Pension Fund Annual Report afterwards. On approval, the annual report will be published on the Council website. The deadline to publish the report is 01 December 2018.
- 1.3 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance, and helps to demonstrate effective management of Fund assets.
- 1.4 The Accounts comprise two main statements with supporting notes. The main statements are:
 - Dealings with Members, Employers and Others, which is essentially the fund's revenue account
 - The Net Assets Statement, which can be considered as the fund's balance sheet
- 1.5 In the year the fund assets increased by £12m showing a net asset value of £663m as at 31 March 2018. (2017 £651m)
- 1.6 In 2017/18 the Fund recorded a total income of £42m. Out of that £29m was from dealings with members and £13m from investment income. The council is the administering authority and the major employer (92%) of the Fund and in the year made a total employer and employee contribution of £21m
- 1.7 In 2017/18 fund total expenditure was £29m, the major expenditure was benefit payments to the members. In the year the Fund paid £27m as pension and other benefits.
- 1.8 Overall, fund membership has increased marginally. As at 31 March 2018 the Fund has 3,933 active members, 5,494 deferred, and 3,849 pensioners. Though the Fund

lost members due to the Council continuous reduction in resources due to auto enrolment the overall fund membership did not move significantly.

2. FINANCE

The audit fee of £21k was incurred in the year and the fee remains the same from previous year.

3. OTHER ISSUES AFFECTING THE FUND

None

4. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

None.

5. LEGAL AND STATUTORY IMPLICATIONS

None.

6. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

N/A

7. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

None

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London Borough of Merton Pension Fund



Annual Report 2017-18

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Merton Pension Fund - Introduction

The Merton Pension Fund is a Local Government Pension Scheme (LGPS) that provides defined pension benefits to its members. The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). The Regulations prescribe the content of the report and this report complies with these regulations.

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

The scheme has to be fully-funded or have a plan to become so. Hence, employer contributions are adjusted based on a triennial actuarial valuation, to ensure that 100% of existing and prospective pension liabilities are met through the various funding sources.

Employee contribution rates are set by statutory regulations and therefore fixed. The employer contribution is determined, triennially, by an actuarial review that takes into account both the amount of employee contribution and the value and investment return of the Pension Fund. Thus the amount and performance of Pension Fund investment is significant to the level of the employer contribution, and supports the need for effective management of the Fund.

The London Borough of Merton is the administrating body and the main employer of the Fund, owning 92% of the Fund. The Fund also has other employers who provide services to the Council and/or to the Borough. There are currently 32 employers admitted to the Fund, these are made up of academies, housing associations and community admission bodies. As at 31 March 2018 the fund had 13,276 total members. Being 3,933 active members; 5,494 deferred and 3,849 pensioners. There are 14 employers currently contributing to the fund, as shown in the following table.

Administering, Scheduled and Admitted Bodies as at 31 March 2018**Administering Body**

- LB Merton

Scheduled Bodies

- Wimbledon and Putney Commons Conservators
- Harris Academy Merton
- Harris Academy Morden
- Harris Academy Primary
- St. Marks Academy
- Benedict Academy
- Park Community School
- CHAS
- Beecholme Academy
- Aragon

Admitted Bodies

- Greenwich Leisure
- Merton Priory Homes
- CATCH 22

As at 31 March 2018 the Fund net asset value was £663m. This showed an increase of £12m from the previous year. The Fund Investments are managed by three external Fund managers who have been appointed through a rigorous selection process. Each quarter the Fund managers' performance is measured against the set benchmark to which they are held accountable. In the financial year 2017/18 the Fund had a total income of £42m and total expenditure of £29m.

The pension administration is managed by the Wandsworth pensions shared services.

Statement of Responsibilities of the Pension Fund

The Council's Responsibilities

The Council is required to:

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

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

The Responsibilities of the Director of Corporate Services.

The Director of Corporate Services is responsible for the preparation of the Pension Fund's accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code of Practice').

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

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

The Director of Corporate Services has also:

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

CAROLINE HOLLAND

Director of Corporate Services

Management and Advisors of the Fund

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

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

Caroline Holland, LB Merton, Merton Civic Centre, Morden, Surrey, SM4 5DX.

2. **Investment Managers**

Aberdeen Asset Management,

UBS Asset Management,

BlackRock,

3. **Custody**

State Street Bank and Trust

J.P. Morgan

4. **AVC Providers**

Prudential PLC,

5. **Investment Adviser**

JLT Employee Benefits.

6. **Fund Actuary**

Barnett Waddingham LLP,

7. **Legal Advisers**

London Borough of Merton -Shared Legal Services

8. **Bankers**

Lloyds Bank Plc,

9. **Auditor**

Ernst & Young LLP,

10. **Scheme Administration**

Pensions Shared Service, London Borough of Wandsworth,

11. **Performance Monitoring and Analysis.**

- State Street Global Services Investment Analytics,
- Pensions & Investment Research Consultants Limited (PIRC Limited)

Risk Management

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

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

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

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

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

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

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

Type of Risk	Mitigation Details
<p>Financial Risk The risk that investment strategy fails to produce the investment return assumed in funding strategy and actuarial assessment.</p>	<p>Investment asset allocation has been guided by an asset/liability modelling exercise, and consideration of the Authority's tolerance of volatility in the employer contribution. Monitoring of the Fund's investment allows any significant drift of allocations away from their target level and corrected where necessary.</p> <p>The Fund policy to diversify investment across a range of asset classes, sectors, markets, and investment managers, and to avoid excessive concentration of investment in any one stock or area.</p>
<p>Demographic Risk The risk that a continuing improvement in mortality rates increases the Fund's liabilities.</p>	<p>The general increase in life expectancy of 1 year, for all members of the Fund, will reduce the funding level by between 2% to 3%. Current actuarial assumptions go some way to accommodating this and the assumptions are updated for each actuarial valuation.</p>
<p>Regulatory Risk The risk of changes in the Regulations governing the Scheme or its tax status.</p>	<p>The Administering Authority monitors and participates in the consultation process for changes in Regulations and seeks advice from the Fund actuary, LGA, London CIV, PLSA and CIPFA on the financial implications of any proposed changes.</p>
<p>Governance Risk The risk of structural changes in an individual employer's membership or closure to new membership, or their financial stability, or their ceasing to exist without having fully funded their pension liabilities.</p>	<p>These risks are addressed by the Administering Authority maintaining adequate contact with the individual employers participating in the Fund, and ensuring that it has current information on their status. Scheduled and Admitted bodies considered a significant risk might be asked to provide an indemnity or performance bond. Costs incurred where contributions due are paid significantly later than expected can be recovered from the relevant employer.</p>
<p>Asset Security Risk The risk of loss of investment assets or cash by fraud or negligence</p>	<p>The processing of investments is split between investment managers, who make decisions on the purchase and sale of investments, and separate, independent custodians who settle and pay investment transactions and receive proceeds.</p> <p>The Authority obtains AAF01/06 and SSAE16 audit reports (an in-depth audit examination of an organisation's internal control) on its investment managers to ensure that they are handling the Authority's investment affairs in a proper and secure manner; it also monitors the creditworthiness of the custodians that hold assets and cash.</p>

Risk Register

Guidance issued by CIPFA on the application of the Myners Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Panels of a risk register was best practice. This enables risks broadly classified above to be looked at in more detail.

The Council uses the 5-stage risk management process that involves identifying, analysing, prioritising, managing and monitoring the risks.

- The register is consolidated into one overall strategy risk and included in the Council's corporate risk register.
- Members review the register periodically.

Financial Performance

During the year, the Fund received £29.5m in contributions and transfers in and paid out £27.4m in benefits and payments to leavers. This showed a net addition of £2.1m from dealing with members. The fund accounted for £12.5m investment income in year, all of which was reinvested within the portfolio with the aim to increase the value of the Fund.

The total income to the Fund was £42m and the total expenditure incurred was £29.3m.

Analytical Review

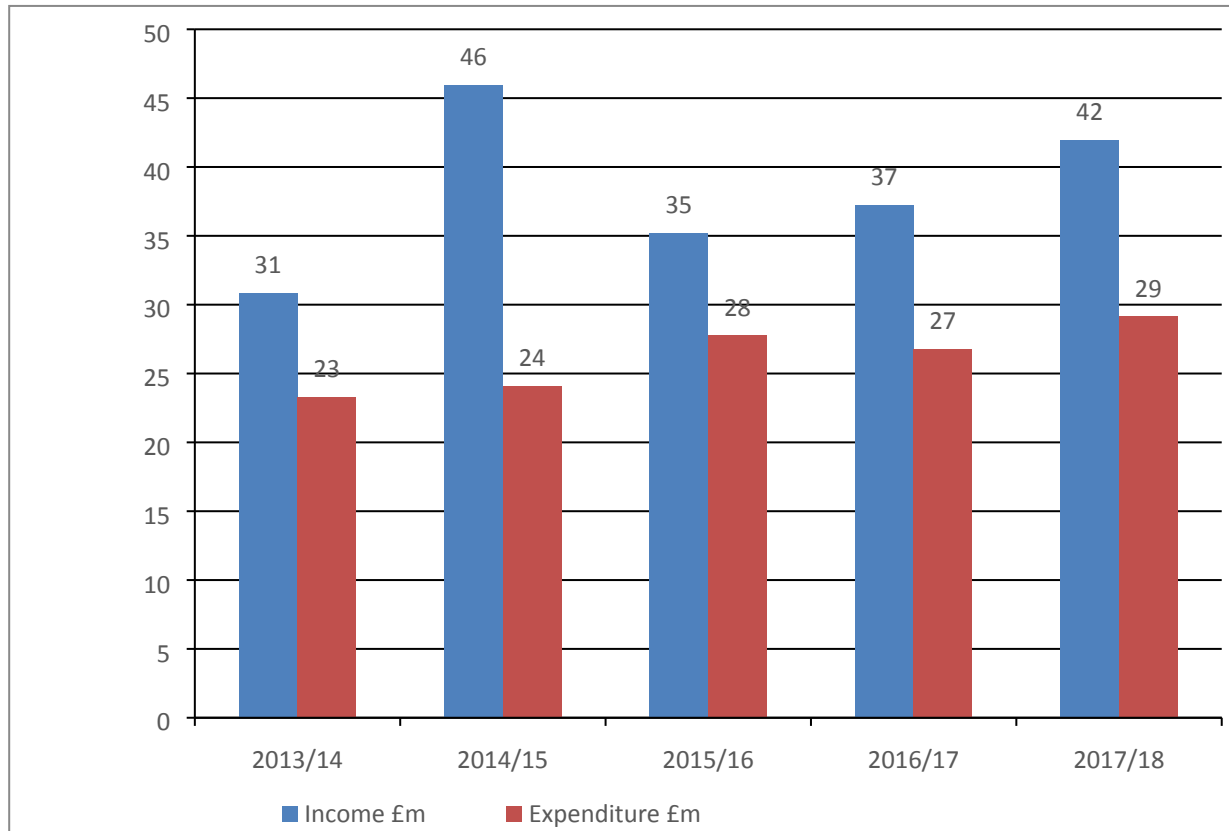
Fund Account	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Contributions Income					
Employers	16,069	29,005	16,489	17,413	17,026
Members	4,794	5,335	5,497	5,762	5,719
Transfers In	765	983	2,153	2,748	6,748
Total	21,628	35,323	24,139	25,923	29,493
Benefits paid					
Pensions	-17,582	-18,473	-19,239	-19,746	-20,516
Other benefits	-2,690	-3,641	-4,559	-3,727	-4,250
Transfers out	-1,517	-1,109	-2,732	-1,430	-2,675
Total	-21,789	-23,223	-26,530	-24,903	-27,441
Net Dealings with Members	-161	12,100	-2,391	1,020	2,052
Management Expenses	-1,499	-856	-1,230	-1,854	-1,869
Returns on Investments	9,216	10,638	11,064	11,326	12,457
Change in Market Value	8,475	48,464	-19,211	109,202	-4
Net Increase/(Decrease)in Fund	16,031	70,346	-11,768	119,694	12,636

Overall member contributions have increased by 19% over the past five years. (01/04/2013 to 31/03/2018). This is due to a natural increase in employer and employees' contributions and auto enrolment too. The employers' contributions were reviewed and agreed as a part of the Fund's triennial valuation in 2016. The next review will take place in March 2019.

Over the 5 years there has been an increase in the Fund of £191m. This increase is primarily due to change in market value and investment income.

The table below summaries the Fund’s income and expenditure for the past five years to 2017/18.

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



A one-off lump sum payment of £10m was made in 2014/15 from the L.B Merton to the Fund as part of steps to reduce the deficit.

Investment Policy and Performance

Introduction to Investment Policy

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

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

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

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

Local Government Pension Scheme Regulations 2013 (The Regulations 7 (1)) requires administering authorities to formulate an investment strategy statement (ISS) Accordingly, administering authorities are required to prepare and maintain an Investment Strategy Statement (ISS) advising how their investment strategy has been determined and implemented in accordance with the Regulation 7 guidance including:

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

Environmentally and Socially Responsible Investment and Governance

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

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

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

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

Subscriptions to Supporting Organisations

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

The Fund is also member of the Pensions and Lifetime Savings Association, which provides access to advisory, conference and training services.

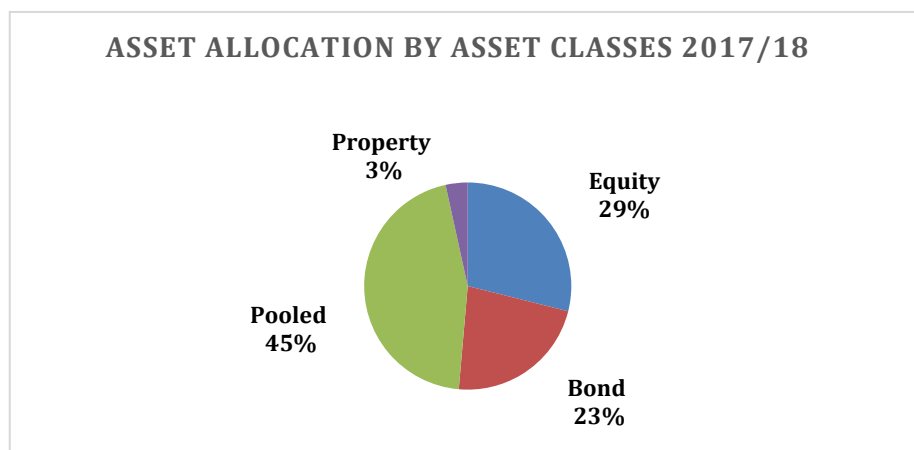
Fund Valuation

As at 31 March 2018 the value of the Fund was £663m an increase of £12m on the value of the Fund from the previous year.

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

MERTON PENSION FUND ANNUAL REPORT 2017/18

Net Asset Value	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Fixed Interest Securities	108.1	127.1	130.9	153.2	152.3
Equities	189.6	200.8	194.0	236.7	244.4
Pooled Investment Vehicles	155.5	181.7	179.6	232.5	236.2
Property Investments	13.2	15.4	21.2	21.3	22.9
Other	5.8	17.6	5.0	6.9	7.4
Total Investment Assets	472.2	542.6	530.8	650.5	663.2



Fund Manager Performance

The fund's investments are managed by three external fund managers in four different asset classes. Fund managers are awarded active or passive mandates. In the case of active management, the manager will invest and realise investments based on their skill and knowledge to outperform the market. By contrast passive managers will buy and hold investments to replicate a market index; e.g. FTSE 100 or All-Share, and by this, expect to mirror market or index performance.

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

The Council holds Fund managers accountable for decisions on asset allocation within the benchmark under which they operate. In order to follow the recommendations of the Myners' Committee, managers are challenged robustly and formally about asset allocation proposals. Managers' performance is reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and they are called to a Committee meeting if there are issues

that need to be addressed. Officers meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangements and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund’s asset allocation strategy can be found in Investment Strategy Statement. The asset allocation of the Pension Fund at the start and end of the financial year is set out above

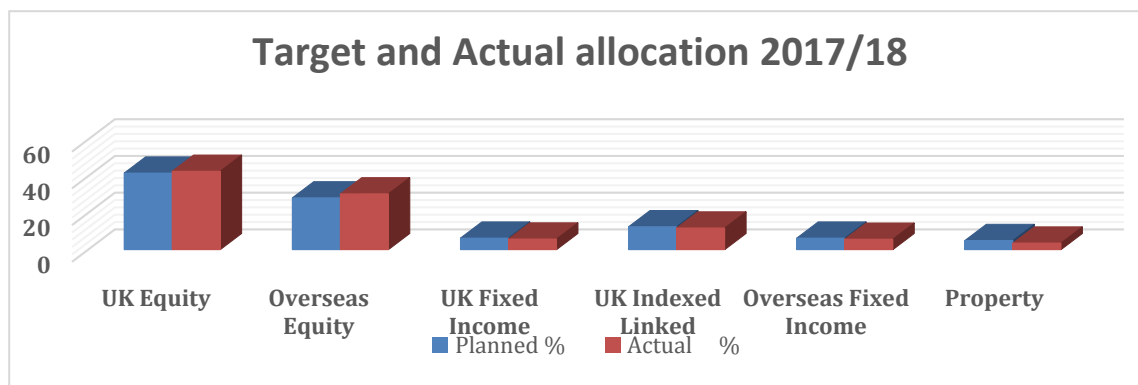
The Fund under-performed the benchmark by 0.2% for the quarter ending 31 March 2018. It lost (4.2%) compared to the benchmark return of (4.0%) for the period.

The table below shows each portfolios performance against their benchmarks for the Quarter to 31/3/18, 1 year, 3 years 5 years and 10 years.

	Quarter to 31 March 2018	1 Year	3 Years	5 Years	10 Years
UBS Global - Equity	-6.30	1.50	6.00	6.00	6.80
Benchmark	-6.20	2.30	6.50	6.70	7.00
Aberdeen - Equity	-4.80	2.90	6.20	6.30	8.20
Benchmark	-5.40	3.70	8.10	8.20	7.60
UBS Global – Passive	-5.80	1.90	8.10	9.10	8.40
Benchmark	-5.80	2.10	8.20	9.10	8.40
Aberdeen- Bonds	-0.50	-0.50	6.50	6.30	7.70
Benchmark	-0.30	-0.30	6.60	6.60	8.00
Blackrock- Property	1.50	8.70	6.00	8.50	4.20
Benchmark	1.90	10.00	8.10	10.50	-
UBS- Property	2.00	10.00	8.00	10.90	2.60
Benchmark	1.90	10.00	8.10	10.50	4.40
Total Fund	-4.20	1.70	7.00	7.50	7.80
Benchmark	-4.00	2.30	7.70	8.30	8.00

Asset Allocation

The Pension Fund is exposed to Equities, Bonds, and Property in accordance with the agreed investment strategy and consistent with the Funding Strategy. The target allocations for 2017/18 were as follows:



The actual asset allocation may fluctuate from the target allocations due to the relative movement of investment values in the markets, or because an investment manager believes that a marginally different allocation would, at a particular time, improve the Fund's investment performance.

Merton tolerated variances within +/-10% or any agreed tolerance level of the target allocation, but thereafter investment managers may be instructed to revert the allocations to target.

Actual Asset Allocation by Manager

Investment Manager	31-Mar 2017 £000	%	31-Mar 2018 £000	%
Aberdeen Equities (Active)	121,348	19	124,804	19
UBS Equities (Active)	64,830	10	66,300	10
UBS Equities (Passive)	287,033	44	292,751	45
Aberdeen Bonds (Active)	153,315	24	152,461	23
Blackrock Property (Managed Funds)	6,950	1	7,575	1
UBS UK Property (Managed Funds)	15,133	2	16,166	2
Change in Derivative Valuation	1	0	-19	0
Total Investment at Market Value	648,610	100	660,038	100

Pension Administration Report

London Borough of Merton, as administering authority is responsible for administering the Pension Fund. The Council is currently in a shared service arrangement with London boroughs of Wandsworth, Camden and Waltham Forest.

Management Performance - Membership

5 Year Membership Data	March 2014	March 2015	March 2016	March 2017	March 2018	% Change 14 to 18
Active Members	3,265	3,694	3,722	4,019	3,933	26%
Deferred Members	3,344	3,783	4,163	4,570	4,691	39%
Pensioner Members	2,929	3,017	3,117	3,209	3,333	12%
Widows / Dependents	479	492	498	516	516	10%
Frozen Refunds	667	500	532	669	803	35%

Although there has been an increase in active members since 2014 both deferred and pensioner members continue to increase. Therefore, those drawing benefits or about to draw benefits are growing at a much faster rate than those contributing to the Fund.

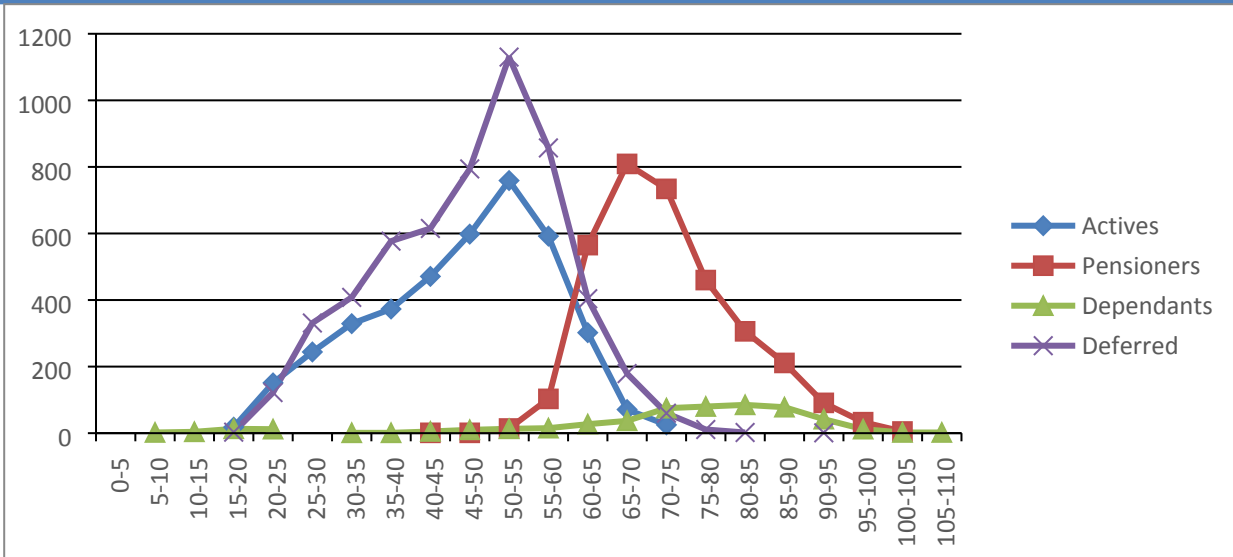
Key Management Performance Indicators

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

Performance Indicator	Target Response Time	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %
Payment of Retirement Allowance	10 Days	94.08	81.63	92.21	89.42	97.69
Benefit Estimates	8 Days	94.05	91.53	95.31	96.82	99.72
Death Cases – First Letter	5 Days	82.98	99.97	97.92	81.16	79.37
Death Benefit Letters	5 Days	95.24	96.08	100.00	85.00	89.23
Onward Transfer Quotes	10 Days	93.24	78.65	100.00	80.00	80.77
Inward Transfer Quotes	10 Days	76.74	73.91	71.88	71.43	83.06

Age Profile /Longevity

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



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

Performance Indicator	Average age for category
Active Members	46 years 5 months
Deferred Members	47 years 9 month
Pensioners	71 years 11 months
Widows/Dependants	72 years 7 months
Onward Transfer Quotes	10 Days
Inward Transfer Quotes	10 Days

The Fund actuary Barnett Waddingham have reported in the IAS26 disclosures that as at 31st March 2018 the assumed life expectancy from age 65 was as follows:

Life Expectancy from age 65 are		
Retiring March 2017	Males	24.5
	Females	26.1
Retiring in 20 years	Males	26.8
	Females	28.4

The actuary’s analysis of LGPS pensioner longevity over the course of the last 20 years or so confirms that pensioners are living longer.

Pension Scheme Case Load

5 Year Case Type Analysis	March 2014	March 2015	March 2016	March 2017	March 2018
Active Members	3,265	3,694	3,722	4,020	3,933
Retirements	143	146	94	68	87
Deaths	82	103	76	83	75
Transfers Received	14	18	29	26	92
Deferred Benefits	331	291	232	350	238
Transfers Paid	30	19	24	20	57
New Starters	422	537	365	664	614
Widows Benefits	31	41	22	30	18
Benefit Estimates	141	157	209	440	360
Redundancy Estimates	137	320	266	182	147
Transfer In Estimates	96	36	64	56	183
Transfer Out Estimates	74	36	40	60	104

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

Pension Scheme Case Load Trends

5 Year Analysis	March 2014	March 2015	March 2016	March 2017	March 2018
% Retirement of active members (includes actual redundancies)	4.4	3.95	2.53	1.69	2.21
% Redundancy estimates of active members (not including bulk transfer)	4.2	8.66	7.15	4.53	3.74
% Change in Deferred Benefits	44.54	-12.08	-20.27	50.86	-32.00
% Change in Redundancy Benefits (not including bulk transfer)	57.5	211.76	-20.45	-31.58	-19.23

Actuarial Report of the Fund (Based on 2016 valuation)

Actuarial Report on the Pension Fund (Background)

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddingham LLP). The last valuation was as at 31st March 2016.

The main purpose of the valuation is to review the financial position of the Fund and to determine the rate at which the employing bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

Regulations require the actuary to set the employer's contribution rate so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases, or plan to do so.

The valuation of the Fund is underpinned by 'economic' and 'statistical' assumptions. The major 'economic' assumptions relate to price inflation, pay escalation and the rate of dividend growth. The 'statistical' assumptions cover future rates of withdrawal and retirement from service, mortality, the proportion of married members and the progression of pensionable pay through increasing responsibility and promotion.

Executive Summary of the 2016 Triennial Valuation Report

The overall funding level has increased from 89% in 2013 to 94% in 2016 and the deficit reduced from £53.2m to £32.7m in the same period.

The average required employer contribution to restore the funding position to 100% over the next 12 years is 15.2% of pensionable salaries.

A summary of the assumptions adopted in the valuation are shown as part of the statement of accounts in this report.

Governance Arrangements

Merton Council's Pension Fund Advisory Panel (PFAP) advice in making Pension Fund management decision. The Council has dedicated its responsibility of looking after the Pension Fund to the PFAP. This is a subcommittee of the Council, subject to the usual rules of political balance and access to information.

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

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

The new Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 required an Administering Authority to establish a local Pension Board by 1 April 2015. Both the new PFAP and the Board were formed on 1 April 2015.

Following this year's local elections, there were changes to the PFAP and no changes in the Board. A separate election will be held to appoint the two member representatives.

Delegation of functions

Merton Council has delegated its pension fund management to the Pension Fund Investment Panel. "PFAP".

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

The PFAP is advised by the Pension investment management team at Merton and the Fund's investment consultants.

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

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

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

The terms of reference for the PFAP are:

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

The frequency of meetings

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

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

Representatives

The PFAP draws its membership from "interested parties" as follows:

- Membership: Voting - 3 Councillors
- Non-voting - Chief Finance Officer (or delegate),
- Treasury Services Manager,
- Staff Side Representative,
- Pensioner Representative

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

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

Pensions Board

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

The frequency of meetings

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

Representatives

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

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

The terms of reference for the Pension Board are:

(a) To secure compliance with:

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

(b) Ensure the effective and efficient governance and administration of the Scheme.

Merton Council will ensure that all members of both the PFAP and the Board receive appropriate training and formally declare that they do not have conflicts of interest.

Governance Compliance Statement

The Governance Policy sets out London Borough of Merton's arrangement for carrying out its responsibilities as Administering Authority for Merton Pension Fund as required by Regulation 31 of the Administration Regulations 2008 (Regulation 55 of the Local Government Pension Scheme Regulations 2013).

The statement includes:

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

The full version of the Governance Compliance Statement is included as Appendix A and is shown within the whole version of the annual fund report located on the Pension Fund website at:

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

Funding Strategy Statement

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

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

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

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

The full version of the Funding Strategy Statement is included as Appendix B and is shown within the whole version of the annual fund report located on the Pension Fund website at:

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

Investment Strategy Statement

Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required each administering authority to prepare, maintain and publish a written Statement of Investment Principles, governing the policy on the investment of pension fund monies.

In November 2015 the DCLG published a consultation paper (Revoking and Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) which included a proposal to replace the Statement of Investment Principles with an Investment Strategy Statement. This change has now been implemented with effect from 1 April 2017.

The ISS should set out how the LGPF addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments.
- The administering authority's assessment of the suitability of particular investments and types of investment.
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed.
- The administering authority's approach to pooling investments, including the use of collective investment vehicles.
- The administering authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The full version of the Investment Strategy Statement is included as Appendix C and is shown within the whole version of the annual fund report located on the Pension Fund website at:

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

Communications Policy

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

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

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

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

Enquiries

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

E-mail: pensions@wandsworth.gov.uk

Telephone: 020 8871 8036

Address:

Pensions Shared Service
Camden, Merton and Wandsworth & Richmond
PO Box 72351
London
SW18 9LQ

The full version of the Communications Policy is included as Appendix D and is shown within the whole version of the annual fund report located on the Pension Fund website at:

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

Pension Fund Accounts

2016/17 £000	Fund Account	Notes	2017/18 £000
	Dealings with members, employers and others directly involved in the scheme		
(23,175)	Contributions	7	(22,745)
(2,748)	Transfers in	8	(6,748)
(25,923)	Total Income		(29,493)
23,400	Benefits	9	24,695
1,503	Payments to and on account of leavers	10	2,746
24,903	Total Expenditure		27,441
(1,020)	Net (additions)/withdrawals from dealings with members		(2,052)
1,854	Management expenses	11	1,869
834	Net (additions)/withdrawals including fund management expenses		(183)
	Returns on investments		
(11,575)	Investment income	12	(12,605)
249	Taxes on income	13	148
(109,202)	(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	4
(120,528)	Net returns on investments		(12,453)
(119,694)	Net (increase)/decrease in the net assets available for benefits during the year		(12,636)
(530,822)	Opening net assets of the scheme		(650,516)
(650,516)	Closing net assets of the scheme		(663,152)

Net Assets Statement

2016/17 £000		Notes	2017/18 £000
651,090	Investment assets	14	661,536
(2,330)	Investment liabilities	14	(1,348)
648,760	Total Investments		660,188
2,720	Current assets	20	4,581
(964)	Current liabilities	21	(1,617)
650,516	Net assets of the Fund available to Fund benefits at period end		663,152

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

Notes to the Pension Fund Accounts

1. Description of Fund

The London Borough of Merton Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Merton (“the Authority”). The Authority is the reporting entity for this Pension Fund.

The LGPS Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Authority for these arrangements.

(a) General

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

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

The Pension Fund Advisory Panel (PFAP) oversees and advises on investment of the Fund. This Panel comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The Authority takes independent professional advice on investment policy and strategy.

The Public Service Pensions Act 2013 requires each Fund within the Local Government Pension Scheme, to establish and run a Local Pension Board. Merton’s Local Pension Board is responsible for assisting the Council as administering authority to ensure the effective and efficient governance and administration of the Fund and to comply with legislation and with any requirement imposed by The Pensions Regulator.

The Board meets quarterly and has no decision-making powers on policy matters but may make recommendations to PFAP. The Board has four members comprising two employers and two scheme member representatives.

(b) Membership

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Authority. In addition to the Authority, the Admitted and Scheduled Bodies that currently contribute to the Fund are shown in the following table:

The following table summarises the membership numbers of the scheme.

2016/17		2017/18
	Active Members	
3,705	London borough of Merton	3,565
240	Scheduled bodies	305
74	Admitted bodies	63
4,019		3,933
	Pensioners	
3,455	London borough of Merton	3,571
113	Scheduled bodies	163
157	Admitted bodies	115
3,725		3,849
	Deferred Pensioners	
4,821	London borough of Merton	5,074
306	Scheduled bodies	302
112	Admitted bodies	118
5,239		5,494

(c) Funding

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

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2018. The employee contributions are matched by the employer contributions which are set based on triennial actuarial funding valuations. The latest valuation occurred at 31 March 2016. Currently, employer contribution rates range from 12.0% to 26.4%. Employers pay a monetary contribution towards past service costs.

(d) Benefits

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

	Service pre 1 April 2008	Service Post 1 April 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3x pension. In addition, 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.	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.

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its financial position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2017/18', which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The Fund Account is operated on an accruals basis except where otherwise stated.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contributions

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

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

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

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

3.2 Transfers

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

3.3 Investment income

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

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

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

3.4 Interest income

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.

Revenue account – expense items

3.5 Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

3.6 Taxation

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

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

3.7 Management Expenses

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

(a) Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from Fund assets by the Fund Managers.

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

(b) Oversight and Governance costs

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

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

3.8 Administrative Expenses

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

Net Asset Statement

3.9 Investment Assets

The Pensions Statement of Recommended Practice (SORP) requires that investments should be included at their market value at the date of the Net Assets Statement, where such a value is available. Changes in market value are debited or credited to the Fund Account. The SORP promotes the use of bid values for market values but only where they are quoted prices in an active market. If a market is not active or has not been active since significant change in economic circumstances, then Fund Managers may provide an alternative valuation, which in their professional opinion provides a more reliable basis for market value.

3.10 Financial liabilities

The Fund recognises financial liabilities at fair value 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.

3.11 Movement in the net market value of investment

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

3.12 Foreign currency

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2018.

3.13 Cash

Cash comprises cash in hand and includes amounts held by the Fund's external managers.

3.14 Actuarial present value of promised retirement benefits

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

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

3.15 Provisions

Provisions are liabilities of uncertain timing or amount. Provision is made for unusual items which meet the definition of a provision but only when these are judged to be material to the accounts.

3.16 Additional Voluntary Contributions

Merton Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund only uses one provider, the Prudential PLC. AVC's are not included in the accounts in accordance

with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed in note 22.

3.17 Going Concern

The Pension Fund Accounts have been prepared on a going concern basis.

3.18 Contingent Assets and Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

3.19 Events After The Reporting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and;
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

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

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

The main item in the Fund's Net Asset Statement at 31 March 2018 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £17.3m and a -0.1% reduction would increase the obligation by £17.7m. An adjustment to the mortality age rating assumption of -1 year would decrease the obligation by £35.2m.

6. Events After the Reporting Date

There have been no events after the reporting date that would have a material impact on these financial statements.

7. Contributions Receivable

2016/17 £000	By Category	2017/18 £000
17,413	Employers	17,026
5,762	Members	5,719
23,175	Total	22,745

2016/17 £000	By Authority	2017/18 £000
21,486	Administering	20,900
1,145	Scheduled	1,372
544	Admitted	473
23,175	Total	22,745

2016/17 £000	By Type	2017/18 £000
11,901	Employers normal	12,783
5,762	Employees normal	5,719
4,548	Deficit funding	3,430
964	Employers additional	813
23,175	Total	22,745

8. Transfers In From Other Pension Funds

2016/17 £000		2017/18 £000
2,748	Individual Transfers	3,760
0	Group Transfer	2,988
2,748	Total	6,748

9. Benefits Payable

2016/17 £000	By Category	2017/18 £000
19,746	Pensions	20,516
3,387	Commutations and lump sum retirement benefits	3,558
267	Lump sum death benefits	621
23,400	Total	24,695

2016/17 £000	By Authority	2017/18 £000
21,597	Administering	22,915
978	Scheduled	861
825	Admitted	919
23,400	Total	24,695

10. Payments to and on Account of Leavers

2016/17 £000		2017/18 £000
1,430	Individual transfers	2,425
0	Group transfers	250
88	Refunds of contribution	68
(15)	State scheme premiums	3
1,503	Total	2,746

11. Management Expenses

2016/17 £000		2017/18 £000
368	Administrative costs	460
1,295	Investment management expenses	1,108
191	Oversight and governance costs	301
1,854	Total	1,869

11a. Investment Management Expenses

2016/17 £000		2017/18 £000
1,043	Management fees	788
9	Performance related fees	10
17	Custody fees	10
226	Transaction costs	300
1,295	Total	1,108

12. Investment Income

2016/17 £000		2017/18 £000
2,359	Income from bonds	2,232
7,566	Income from equities	8,860
79	Pooled investments – unit trusts and other managed funds	166
832	Pooled property investments	826
739	Other	521
11,575	Total	12,605

13. Taxes on Income

2016/17 £000		2017/18 £000
200	Non-recoverable tax	115
49	Withholding tax	33
249	Total	148

14. Investment

14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value of the assets (including accrued dividends) by Fund Manager and the proportion managed by each manager as at 31 March 2018. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2016/17		Fund Manager	2017/18	
£000	%		£000	%
274,663	42	Aberdeen	277,265	42
366,997	57	UBS	375,198	57
6,950	1	Blackrock	7,575	1
648,610	100	Total	660,038	100

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2018 is shown in the following table. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2017 £000		Market Value 31 March 2018 £000
	Investment Assets	
153,178	Bonds	152,315
236,697	Equities	244,427
232,468	Pooled investments	236,156
21,321	Pooled property investments	22,896
2,328	Derivative contracts - Futures	1,329

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3,638	Cash held with fund managers	2,829
1,310	Investment income due	1,434
650,940	Total Investment Assets	661,386
	Investment Liabilities	
(2,330)	Derivative contracts - Futures	(1,348)
150	LCIV Subscription	150
648,760	Net investment assets	660,188

14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2017/2018. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

	Market Value 1 April 2017 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2018 £000
Bonds	153,178	4,870	(2,974)	(2,759)	152,315
Equities	236,697	64,820	(50,592)	(6,498)	244,427
Pooled Investments	232,468	14,510	(18,655)	7,833	236,156
Pooled Property	21,321	444	(262)	1,393	22,896
	643,664	84,644	(72,483)	(31)	655,794
Derivatives (Futures)	2,328	8,170	(9,193)	24	1,329
Future Asset	(2,330)				(1,348)
Future Liability	643,662	92,814	(81,676)	(7)	655,775

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Other Investment Balances					
Cash with Fund Managers	3,638				2,829
Investment Income Due	1,310				1,434
Realised Loss on FX				3	
External Investments at Market Value	648,610				660,038
LCIV Subscription	150				150
Investment Assets	648,760			(4)	660,188

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2016/2017.

	Market Value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the Year	Market Value 31 March 2017
	£000	£000	£000	£000	£000
Bonds	130,929	5,881	(4,026)	20,394	153,178
Equities	194,037	46,780	(39,711)	35,591	236,697
Pooled Investments	179,624	24,016	(24,079)	52,907	232,468
Pooled Property	21,183	203	0	(65)	21,321
	525,773	76,880	(67,816)	108,827	643,664
Derivatives (Futures)					
Future Asset	1,528	10,251	(9,837)	386	2,328
Future Liability	(1,527)				(2,330)
	525,774	87,131	(77,653)	109,213	643,662
Other Investment Balances					
Cash with Fund Managers	2,005				3,638
Investment Income Due	1,261				1,310
Realised Loss on FX				(11)	

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External Investments at Market Value	529,040			109,202	648,610
LCIV Subscription	150				150
Investment Assets	529,190			109,202	648,760

14.4 Detail Analysis of Investments

The table below shows an analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'. The analysis excludes derivatives.

Market Value 31 March 2017 £000		Market Value 31 March 2018 £000
	Bonds	
115,432	Public Sector : UK quoted	114,952
37,746	: Overseas quoted	37,363
153,178		152,315
	Equities (Direct)	
219,251	UK quoted	226,155
17,446	Other European quoted	18,272
236,697		244,427
	Pooled Investments	
55,303	UK (Equities)	54,917
35,301	Other European (Equities)	35,927
66,106	American (Equities)	69,087
27,652	Japanese (Equities)	27,858
25,917	Other Overseas (Equities)	26,083
22,189	Developing Markets (Equities)	22,283
6,935	Property Managed Fund/Units quoted	7,561
14,386	Property Managed Fund/Units unquoted	15,336

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1,310	Other Investment Balances	1,434
3,638	Cash with Fund Managers	2,829
2,328	Derivatives (Futures)	1,329
261,065		264,644
	Investment Liabilities	
(2,330)	Derivatives (Futures)	(1,348)
150	LCIV Subscription	150
648,760	Total	660,188

14.5 Analysis of derivatives

Futures contracts are used to gain exposure to investment markets without the need to purchase underlying stocks and shares. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

The derivative instruments, which are used by the Fund, are FTSE future contracts, which have been applied to the active and passive sub-funds managed by UBS Asset Management. These instruments are essentially used by the Fund Managers for efficient portfolio management. At 31 March 2018, the value of FTSE futures amounted to less than 0.5% of all equity investment in the Fund (0.5% in 2016/17).

The following table reflects the Fund's exposure to future contracts.

Type	Expires	Economic exposure £000	Market value 31 March 2017 £000	Economic exposure £000	Market value 31 March 2018 £000
UK Equities	Three – Six months	2,330	2,328	1,348	1,329

14.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2018.

14.7 Investments exceeding 5% of net assets

The table below shows investments exceeding 5% of total net assets, (all these investments are pooled).

% Market Value 2016/17	Security	% Market Value 2017/18
11.90	Aberdeen Global II Index Linked	11.65
9.34	UBS Life North America Equity Tracker	9.38
7.23	UBS Life UK Equity Tracker	7.35
5.84	Aberdeen Global II Global Aggregate	5.69
5.34	UBS Life Europe Ex UK Equity Tracker	5.34

The largest single direct holding is HSBC at 1.74% (1.62% in 2016/17).

The following investments represent more than 5% of their asset class.

% Market Value 2016/17		Security	% Market Value 2017/18	
£000	% of asset class		£000	% of asset class
		Bonds		
37,746	24.64	Aberdeen Global II Global Aggregate	37,363	24.53
76,902	50.20	Aberdeen Fund Mana Sterling	76,545	50.25
26,224	17.12	Aberdeen Sterling Long Dated Gov Bond	26,368	17.31
12,306	8.03	Aberdeen Sterling Long Dated Corp Bond	12,039	7.90
		Pooled Investments		
60,310	25.94	UBS Life North America Equity Tracker	61,632	26.10
46,694	20.09	UBS Life UK Equity Tracker	48,308	20.46
34,522	14.85	UBS Life Europe Ex UK Equity Tracker	35,082	14.86
17,692	7.61	UBS Life Pacific/Ex Japan Eqty Tracker	17,765	7.52
17,165	7.38	UBS Life Japan Equity Tracker	17,973	7.61
13,805	5.94	Aberdeen Global Emerging Markets	12,438	5.27
		Pooled Property Investments		
14,145	66.35	UBS Triton Property Unit Trust	15,336	66.98

6,935	32.53	Blackrock UK Property	7,561	33.02
2,328	100	Derivative Contracts - Futures	1,329	100

15. Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Current market “bid” price	Not required	Not required
Quoted bonds	Level 1	Current market “bid” price	Not required	Not required
Derivatives	Level 1	Valued from prices set by independent participants in the market	Not required	Not required
Property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

15a Fair Value Hierarchy

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

Level 1 – Financial instruments at 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 interest securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – those financial instruments where 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 – those financial instruments where at least one input, that could have a significant effect on the instrument’s valuation, is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various

valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 and 2, based on the level at which the fair value is observable.

31 March 2017			31 March 2018	
Quoted market price Level 1 £000	Quoted market price Level 2 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000
625,981	21,321	Financial assets at fair value through profit and loss	635,661	22,896
3,788		Loans and Receivables	2,979	
(2,330)		Financial Liabilities	(1,348)	
		Fair Value through profit and loss		
627,439	21,321	Total	637,292	22,896

16. Financial Instruments

16.1 Classification of financial instruments

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

31 March 2017				31 March 2018		
Designated at fair value through profit and loss £000	Loans and receivables Restated £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
153,178			Financial Assets			
236,697			Bonds	152,315		
232,468			Equities	244,427		
21,321			Pooled Investments	236,156		
2,328			Pooled Property Investments	22,896		
	3,638		Derivative Contracts	1,329		
	150		Cash With Fund Managers		2,829	
			LCIV Subscription		150	
1,310			Other Investment Balances	1,434		
	2,641		Debtors		4,339	
647,302	6,429	0	Total	658,557	7,318	
					0	

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(2,330)			Financial Liabilities			
			Derivative Contracts	(1,348)		
		(708)	Creditors			(1,344)
(2,330)	0	(708)	Total	(1,348)	0	(1,344)
644,972	6,429	(708)	Grand Total	657,209	7,318	(1,344)

16.2 Net gains and losses on financial instruments

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

31 March 2017 £000		31 March 2018 £000
	Financial Assets / Liabilities	
109,173	Fair Value through profit and loss	(16)
29	Loans and Receivables	12
109,202	Total	(4)

17. Nature and Extent of Risks Arising from Financial Instruments

17.1 Risk and risk management

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

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

17.2 Market risk

The Fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity investments. The Fund has one future valued at £1,328,765 (£2,328,160 as at 31 March 2017)

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. London Borough of Merton asset allocation is predominantly in equities, the majority of which

are priced in Sterling. Riskier assets in the Fund such as equities display greater potential price volatility than bonds. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,829	0.7	2,849	2,809
Investment portfolio assets				
UK Equities	281,073	9.4	307,494	254,652
Overseas Equities	199,510	9.4	218,264	180,756
Bonds and Index Linked	152,315	10.3	168,003	136,626
Property	22,896	3.5	23,698	22,095
Income Due	1,434	0.00	1,434	1,434
Fixed Deposits (LCIV Subscription)	150	0.00	150	150
Total Assets	660,207		721,892	598,522

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

Asset Type	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	3,638	0.01	3,638	3,638
Investment portfolio assets				
UK Equities	274,554	8.05	296,656	252,452
Overseas Equities	194,611	10.29	214,636	174,586
Bonds and Index Linked	153,178	11.03	170,074	136,282
Property	21,321	2.40	21,833	20,809
Income Due	1,310	0.00	1,310	1,310
Fixed Deposits (LCIV Subscription)	150	0.00	150	150
Total Assets	648,762		708,297	589,227

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2018 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign

exchange risk). Whether those changes are caused by factors specific to individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

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

Asset Type	Potential market movements (+/-) %
Equities	9.4
Bonds and Index Linked	10.3
Cash	0.7
Property	3.5

17.5 Interest rate risk

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

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

17.6 Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the GBP. The majority of foreign equities in the UBS portfolio are priced in GBP thereby reducing currency risk fluctuations. The % change has been derived from the measurement of volatility of the Fund over three years.

The table below shows the currency exposure by asset type as at 31 March 2018.

Asset Type	Value at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	199,510	8.8	217,067	181,953
Overseas Bonds	37,363	8.8	40,651	34,075
Total Overseas Assets	236,873		257,718	216,028

The table below shows the currency exposure by asset type as at 31 March 2017.

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Asset Type	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	194,611	8.46	211,075	178,147
Overseas Bonds	37,746	8.46	40,939	34,553
Total Overseas Assets	232,357		252,014	212,700

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2018. In doing this we have applied the single outcome to all non-UK assets where the manager

has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Currency	Value at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	1,287	9.00%	1,403	1,171
EURO	13,977	9.00%	15,235	12,719
Swedish Krona	1,618	9.70%	1,775	1,461
Swiss Franc	4,805	10.30%	5,300	4,310
US Dollar	37,508	9.70%	41,146	33,869
Total	59,195		64,859	53,530

Currency	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	1,007	9.15	1,099	915
EURO	8,463	9.13	9,236	7,690
Norwegian Krone	351	10.96	389	313
Swedish Krona	2,289	9.07	2,497	2,081
Swiss Franc	5,364	12.46	6,032	4,696
US Dollar	37,785	9.13	41,235	34,335
Total	55,259		60,488	50,030

17.7 Credit risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2018. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

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

Value at 31 March 2017 £000		Value at 31 March 2018 £000
3,829	AAA	7,768
117,793	AA	111,342
14,399	A	14,470
14,399	BBB	15,536
1,379	BB or below	1,219
1,379	Cash	1,980
29	Settled Cash	38
153,207		152,353
150	LCIV Subscription	150
153,357	Total	152,503

17.8 Liquidity risk

The Authority has immediate access to its Pension Fund cash holdings to enable it to meet its financial obligations when due. Within the bond portfolio, the Fund is permitted to hold up to 10% of the Fund in cash for this reason and to ensure that the Fund has available an element of cash to ensure that settlement of the segregated securities traded in the portfolio do not take the cash accounts overdrawn.

Fund cashflow is periodically reviewed by the Pension Fund Panel on a quarterly basis.

17.9 Refinancing risk

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

18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- 1) To ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet pension liabilities as they fall due for payment;
- 2) To ensure that employer contribution rates are as stable as possible;
- 3) To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- 4) To reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so, and;

- 5) To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

As at the 2016 actuarial valuation, the Fund was assessed as 94% funded. This corresponded to a deficit of £32.7m. at that time.

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

	2010 Valuation	2013 Valuation	2016 Valuation
Funding Level %	84.0	89.0	94.0
Funding (Deficit) £m	(67.2)	(53.2)	(32.7)

The assessed value of assets held by the Fund at 31 March 2016 was £525.5m (2013 valuation: £451.0m), whilst the liabilities accrued in respect of pensionable service were £558.2m (2013 valuation: £504.2m).

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

Financial Assumptions

Financial Assumption		31 March 2016	31 March 2013
Discount rate		5.5%	5.9%
Pay increase	Long Term	3.9%	4.5%
	Short Term	Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020	CPI for period 31 March 2013 to 31 March 2015
Consumer price inflation (CPI)		2.4%	2.7%
Pension increases		2.4%	2.7%
		Funds will pay limited increases for members that have reached Statutory Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase.	
Pension increases on GMP		For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	No allowances for limit in increase for any members

Demographic Assumptions

The main assumptions are detailed below:

Demographic Assumptions	31 March 2016	31 March 2013
Allowance for improvement in life expectancy	2015 Continuous Mortality Investigation (CMI) Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI Model with a long-term rate of improvement of 1.5% p.a.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension
Allowance for 50:50 membership	Based on members' current section	10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose, the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes. In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2018, using a valuation methodology that is consistent with IAS19.

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

Financial Assumptions	Assumptions as at 31/03/18 %
Inflation/Pension Increase Rate	2.30
Salary Rate Increase	3.80
Discount Rate	2.55

The value of the Fund's promised retirement benefits as at 31 March 2018 was:

31/03/17 £m		31/03/18 £m
1,002.2	Present value of promised retirement benefits	1002.5

20. Current Assets

31/03/17 £000	Current Assets	31/03/18 £000
79	Contributions Due	242
189	Sundry Debtors	641
2,452	Cash in Hand	3,698
2,720	Total	4,581

Analysis of Debtors

31/03/17 £000	Current Debtors	31/03/18 £000
38	Administering Body	168
41	Admitted and Scheduled Bodies	74
189	Sundry Debtors	641
268	Total	883

21. Current Liabilities

31/03/17 £000	Creditors	31/03/18 £000
(628)	Fund Managers Fees	(755)
(80)	Sundry	(589)
(256)	Payroll	(273)
(964)	Total	(1,617)

22. Additional Voluntary Contributions

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

The amount of additional voluntary contributions paid by members during 2017/18 to AVC schemes outside the Authority's responsibility was £0.442m (£0.172m at 31 March 2017). The external providers have reported that at 31 March 2018 the total value of accumulated AVCs is £2.36m (£2.05m at 31 March 2017).

23. Related Parties

Merton Council

Merton Pension Fund is administered by Merton Council consequently there is a strong relationship between the Council and the Pension Fund. During the reporting period, the Council incurred costs of £0.41m (2016/17 £0.36m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of scheme members and contributed £15.7m to the Fund in 2017/18 (2016/17: £16.2m).

Governance

C Holland, (Director of Corporate Services) is an active member of the Pension Fund. There are no members of the Pension Fund Advisory Panel (PFAP) in receipt of pension benefits.

Key Management Personnel

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

	31/03/17 £000	31/03/18 £000
Short-term benefits	88,570	103,114
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total remuneration	88,570	103,114

24. Contingent Asset/Liabilities

As at 31 March 2018 there were no contingent assets or liabilities to disclose.

Independent Auditor's Report to the Members of Merton Pension Fund

AUDITOR'S REPORT TO A LGPS ADMINISTERING AUTHORITY– REPORT ON PENSION FUND FINANCIAL STATEMENTS

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Merton Council Draft Statement of Accounts for the year ending 31 March 2018, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information.

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

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Corporate Services

As explained more fully in the Statements of Responsibilities set out on page 5, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
30 July 2018

The maintenance and integrity of the Merton Pension Fund web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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