To: Councillor Andrew Pelling (Chairman);
Councillor Simon Hall (Vice-Chairman);
Councillors Simon Brew, Patricia Hay-Justice, Maddie Henson, Yvette Hopley, Dudley Mead, and John Wentworth

Reserve Members: Councillors Jamie Audsley, Robert Canning, Pat Clouder, Jason Cummings, Badsha Quadir, Mike Selva and Donald Speakman.

Staff Side Representative; Mr Isa Makumbi
Pensioner Representatives: Ms Gilli Driver and Mr Peter Howard

A meeting of the **PENSION COMMITTEE** which you are hereby summoned to attend, will be held on **Tuesday 7th June 2016** at **10.00am**, in **Room F10, Croydon Town Hall, Katharine Street, Croydon, CR0 1NX**.

GABRIEL MacGREGOR
Acting Council Solicitor and Acting Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

James Haywood
Members' Services Manager
0208 7266000 ext.63319
james.haywood@croydon.gov.uk
www.croydon.gov.uk/agenda
27 May 2016

Members of the public are welcome to attend this meeting. If you require any assistance, please contact James Haywood as detailed above.

AGENDA - PART A

1. Apologies for absence

2. Minutes of the last Meeting (Page 1)

To approve the minutes of the last Pension Committee held on 8 March 2016

3. Disclosure of Interest

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality in excess of £50. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Business Manager at the start of the meeting. The Chairman will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

To receive notice from the Chair of any business not on the Agenda which should, in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. Exempt Items

To confirm the allocation of business between Part A and Part B of the Agenda.

6. Actuarial Assumptions (Page 7)

To include a facilitated discussion led by Richard Ward (Scheme Actuary)

7. Pension Fund Audit Plan (Page 31)

To receive a presentation by Elizabeth Olive and Rufaro Dewu from Grant Thornton

8. Procurement of Professional Services through National LGPS Framework (Page 49)

9. Adoption of Communication Strategy (Page 55)

10. Adoption of Discretions in respect of Admitted Bodies that are closed

to further members (Page 69)

11. **Academies in arrears of Employer Contributions to the LGPS** (Page 75)

12. **Governance Review: Local Pension Board** (Page 83)

13. **Update for London CIV**

    Verbal Update

14. **Progress Report for Quarter Ended 31 March 2016** (Page 135)

15. **Camera Resolution**

    To resolve that, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

AGENDA - PART B

B1. **Part B Minutes of the last meeting** (Page 157)

    To approve the Part B minutes of the last Pension Committee held on 8 March 2016

B2. **Progress Report for Quarter Ended 31 March 2016** (Page 159)

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PENSION COMMITTEE

Meeting held on Tuesday 8 March 2015 at 10am in Room F10, The Town Hall, Katharine Street, Croydon, CR0 1NX

WRITTEN MINUTES – PART A

Present: Councillor John Wentworth (Chairman);
Councillor Simon Hall (Vice-Chairman);
Councillors Jan Buttinger, Robert Canning, Luke Clancy, Maddie Henson, and Andrew Pelling

Also Present: Ms. Gilli Driver (Pensioner Representative)
Mr. Isa Makumbi (Staff Side Representative)

In attendance: Nigel Cook, (Head of Pensions and Treasury)
Matthew Hallett, (Pension Fund Investment Manager)
Richard Simpson, (Assistant Chief Executive and s151 Officer)
David Lyons (Aon Hewitt)
Daniel Carpenter (Aon Hewitt).

A01/16 APOLOGIES FOR ABSENCE

Apologies were received from Councillors Humayun Kabir (Councillor Canning as substitute), Yvette Hopley (Councillor Clancy as substitute), and Dudley Mead.
Apologies were also received from Peter Howard (Pensioner representative) and Mike Ellsmore, (Chair of the Local Pension Board)

A02/16 MINUTES OF THE MEETING HELD ON 8 DECEMBER 2015

RESOLVED that the Part A minutes of the meeting held on 8 December 2015 be signed as a correct record of the decisions taken.

A03/16 DISCLOSURES OF INTEREST

No disclosures of interest were made during the meeting.

A04/16 URGENT BUSINESS

There was no urgent business to consider.

A05/16 EXEMPT ITEMS

The allocation of business between Part A and Part B of the agenda were confirmed as stated.

A06/16 **REQUIREMENT TO POOL LGPS FUNDS** (item 6)

The Head of Pensions and Treasury introduced the item. This government consultation is for the creation of six regional pools of LGPS funds. The appendix to the report represents Croydon's response to the proposals; the further appendix is the London Collective Investment Vehicle (CIV) response, that Croydon is also a member of.

The Assistant Chief Executive stated that Croydon voluntarily joined the CIV however the changes proposed in the consultation will make such pooling compulsory. Due to the work of the CIV London is well ahead of the pooling process compared to the rest of the country. There is an acceptance from central government that the pooling process could be a ten year undertaking.

Responding to questions from the Committee the following was reported:

- The Pension Committee would still be in control of investments, for example setting the rate of infrastructure investment at 10%.
- Croydon's infrastructure investments are bundles of smaller projects rather than large scale developments, thus spreading the risk.
- Initial discussions with some of Croydon's larger fund managers has raised the prospect of anticipated fee savings of around one to one and a half percent. There will be transitional costs associated with pooling but professional transitional managers are being used to help mitigate these costs. The London CIV response makes reference to anticipated savings as well. Ultimately the level of savings will be based on what agreements local funds have with managers.

The Committee **NOTED** the contents of the report.

A07/16 **CONSULTATION ON REVOKING AND REPLACING THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009** (item 7)

The Head of Pensions and Treasury introduced this item. Croydon's response to this consultation is attached to the report. The new regulations require funds to use separate bank accounts, previously this was just recommended best practice and Croydon already has such a system in place. The new regulations additionally require an investment strategy and would provide the Secretary of State with a number of additional powers including back stop powers.

David Lyons added that there was no specific guidance in the regulations regarding provision of proper advice. There was also concern raised over the proposed Secretary of State powers – as they stand it would allow intervention even where guidance isn't followed.
The new regulations address the confusion over the definition of derivatives and essentially state that the "prudent person" test should be used when considering investment.

The Committee **NOTED** the contents of the report.

A08/16 **2016 – 2017 PENSION COMMITTEE FORWARD PLAN** (item 8)

The Head of Pensions and Treasury introduced this item. The attached document is an organic draft which will develop as circumstances change. The Committee were encouraged to email officers for any amendments or suggestions.

The Committee **NOTED** the proposed forward plan.

A09/16 **PENSION FUND RISK REGISTER** (item 9)

The Head of Pensions and Treasury introduced this item. It was highlighted that there was only one "red" risk identified as this related to employer members becoming insolvent.

Some Committee members raised that an additional risk to add is the potential risk of the Secretary of State's new powers in the proposed regulations being utilised to force the fund to invest in infrastructure. The Assistant Chief Executive advised that as the regulations are still in consultation it would be prudent to revisit this point after the regulations are in final form.

Daniel Carpenter stated that the most effective risk registers were those that are kept under regular review. The Committee requested that the risk register be reviewed on a half yearly basis.

The Committee **RESOLVED** to agree the contents of the risk register and for the item to return to the Committee for review on a six monthly basis.

A10/16 **UPDATE FROM THE LOCAL PENSION BOARD** (item 10)

The Head of Pensions and Treasury introduced the item. The report was substantially drafted by the Independent Chair to the Local Pension Board

(LPB), and the key point to note was that the Board reviews the Committee papers at each meeting. The report also contains the training sessions that LPB members have attended, as this forms part of the competency requirement of Board members.

The Committee expressed concern that Aon Hewitt were undertaking the governance review as this could create a conflict of interest. David Lyons stated that the potential for such conflict was recognised by Aon Hewitt when bidding for the project. A separate Aon Hewitt office from the investment advisors undertook the review and the advisors' office had no input into the review except for supplying documents when requested.

In response to questions from the Committee the Assistant Chief Executive reported that there was no formal budget for the LPB – the only substantial expenditure of the Board is training sessions and this is a statutory requirement. The governance review is the only other substantial expenditure, and the amount was relatively small. The structure of the LPB comes from the regulations – there must be equal employee and employer representation and an independent chair. It has a duty to report any breaches of regulations. There are a number of stages for this reporting to go through, the final stage being the Pensions Regulator. The chair must be independent, therefore to create a Vice-Chair would require employing another independent person to the Board.

The Committee **NOTED** the Local Pension Board report.

A11/16 **STATEMENT OF INVESTMENT PRINCIPLES** (item 11)

The Head of Pensions and Treasury introduced the item. It was reported that this statement had been considered by the Committee at its previous meeting and was then taken to the Local Pension Board for consultation. The Board members had comments but no changes for the statement. The final draft presented at this meeting has incorporated the changes made at the last Committee.

The Committee **RESOLVED** to adopt the Statement of Investment Principles.

A12/16 **PROGRESS REPORT FOR QUARTER ENDED 31 DECEMBER 2015 (item 12)**

The Head of Pensions and Treasury introduced the item. The end of September was another poor performing quarter, however since then the quarter ending in December saw almost a full recovery. Paragraphs 3.2 and 3.3 of the report highlight the progress made towards the new asset allocation strategy.

Daniel Carpenter tabled a presentation for this item which can be found online here. Equities had rebounded in this quarter with strong returns in both the United States and Japan. Whilst there has been a recovery, the overall trend is down from the beginning of 2015. The outlook is for increased volatility moving forwards with weaker economic growth.

In response to questions from the Committee the following was reported:

- L&G assets are focussed on commuter tenants in London and the South East. Officers will circulate a presentation from L&G for further information.
- With regard to currency risk, Knightsbridge operate in dollars and Pantheon's exposure includes both the dollar and euro.
- Daniel Carpenter reported that Aon Hewitt held a neutral view on corporate bonds – whilst starting the year strong, there had been a downward trend recently.

The Committee **RESOLVED** to note the report.

A13/16 **CAMERA RESOLUTION** (item 13)

The CAMERA resolution was proposed by Councillor Hall and seconded by Councillor Henson.

The Committee **RESOLVED** that the Press and Public be excluded from the remainder of the meeting on the grounds that it is likely, in view of the nature of the business to be transacted or proceedings to be conducted, that there will be disclosure of confidential or exempt information falling within those paragraphs indicated in Part 1 of Schedule 12 A of the Local Government Act 1972, as amended.

SUMMARY OF PART B DISCUSSION

A14/16 The remainder of the meeting included disclosure of exempt information (as defined by paragraph 3 of Schedule 12A in Part 1 of the Local Government Act 1972: 'Information relating to the financial or business affairs of any particular person (including the authority holding that information)'. The minutes of the discussion are therefore also exempt and not available to the public.

A summary of the discussion is below, as required by section 100C(2) of the Local Government Act 1972.

item B1. The Committee **RESOLVED** that the Part B minutes of the meeting held on 8 December 2015 be approved, with one amendment inserted therein, as a correct record of the decisions taken and be signed by the Chairman.

item B2. Progress Report for Quarter Ended 30 December 2015 (exempt under paragraphs 3 & 10)

The Committee **NOTED** the Part B content of the progress report.

The meeting ended at 11.02am.

Croydon Council

REPORT TO:	**PENSION COMMITTEE** **7 June 2016**
AGENDA ITEM:	**6**
SUBJECT:	**Actuarial Assumptions**
LEAD OFFICER:	**Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Decisions about the actuarial assumptions underpinning the 2016 valuation are critical in ensuring the sustainability of the local government pension scheme.	
FINANCIAL SUMMARY: This report deals with key assumptions relating to the 2016 actuarial valuation. These are fundamental to the affordability of the Scheme.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to note the contents of this report.

1.2 The Committee is asked to set an Asset Outperformance Assumption of 2.2%.

1.3 The Committee is also asked to confirm that pay growth assumption will be 1% p.a. until 2020, and then RPI p.a. thereafter.

2. EXECUTIVE SUMMARY

2.1 This report seeks to present Members with sufficient information to make a recommendation as to the assumptions that should be employed in calculating the 2016 actuarial valuation.

3. DETAIL

3.1 The next actuarial valuation of the Fund takes place as at 31 March 2016. This paper provides comments on analysis that can be used to agree two key valuation assumptions - the discount rate and the pay growth assumption. This report examines two components of the valuation, requiring the Committee to make a decision about the appropriateness of options described. In order to assist in this process the Scheme Actuary will facilitate a discussion, introducing and describing the key issues.

3.2 Since the 2013 valuation, new Governance regulations have greatly increased the scrutiny that LGPS funds are under. LGPS funds will now be expected to be able to justify their actions, including choice of assumptions, to both internal and external parties. Additionally, as the Fund's funding plans are increasingly set via a risk based approach, the Fund also needs to understand the risk inherent in any choice of assumption. This paper will form part of the audit trail for the 2016 valuation.

3.3 The full reports on which the comments in this paper are based are attached as an appendix to this report.

Discount Rate

3.4 This assumption reflects the rate of investment return that the Fund expects to earn in future. The choice of discount rate is one of the key decisions made at the actuarial valuation. The discount rate is used to place a single 'present' value on a series of projected future benefit payments. The single value is known as the liabilities.

3.5 The discount rate assumption is set in two parts:

1. Current long dated UK Government Fixed Interest bond yields; plus
2. the Asset Outperformance Assumption ("the AOA").

3.6 The current yield available on long dated UK Government bonds (1) is an estimate of the future 'risk-free' return that can be achieved by the Fund. However it is expected that the Fund's assets will achieve higher returns due to the combination of riskier assets held by the Fund (e.g. equities, property and corporate bonds). The AOA (2) is a prudent estimate of the additional return expected to be achieved by the Fund's assets in the long term over and above the "risk-free" return available on long dated Government bonds. At the 2013 valuation, the AOA was set equal to 2.0% p.a.

3.7 For the purpose of the 2016 valuation, it is important to set an AOA that reflects likely future experience, with allowance for prudence. The Fund should adopt an assumption that is appropriate based on the current investment strategy and is likely to remain appropriate under expected possible future changes to strategy. It may be considered prudent to opt for the upper end of the range of outcomes as the long-run return achieved to date has been 7.6%.

2016 valuation AOA recommendation

3.8 The decision on the appropriate AOA level depends on how prudent the Fund wants to be, and on how it expects its investment strategy to change over the longer term (the next 20 or so years). There is no formal definition of "prudence" – typically an actuary might view an assumption as being prudent if there is at least a 2 in 3 chance of a positive outcome.

Pay Growth

3.9 One of the key actuarial assumptions used to determine the value of the past service liabilities is that relating to future pay growth. This assumption comes in two parts:

1. Annual 'inflationary' pay awards, historically set in order for employees' pay to keep up with the cost of living, and
2. Promotional pay awards or those awarded as part of a defined pay scale.

This analysis considers the first element of the pay growth assumption only.

3.11 The assumption for annual 'inflationary' pay awards increases at the 2013 valuation was set equal to the rate of expected future RPI to reflect future pay growth expectations at that time. There are, however, two prevailing factors that necessitate a review of how the pay growth assumption is set:

1. LGPS benefits accrued from 1 April 2014 are no longer linked to members' final pay due to the introduction of CARE benefit accrual. A Final Salary benefits underpin applies for members within 10 years of retirement at 1 April 2012, however it is unlikely that this will 'bite' in many cases due to the low salary growth environment we are currently experiencing. Future pay growth therefore only affects benefits built up before 31 March 2014. Although pre-2014 liabilities currently make up the vast majority of the Fund's total active liabilities, this will diminish over time. The future period for which the pay growth assumption applies can therefore no longer simply be referred to as 'long-term'.

2. Since 2010, pay growth in the public sector has been restricted and Government policy suggests that this is likely to persist in the near future. In particular, the Government announced during the Summer Budget on 8 July 2015 that funding would be provided to meet public sector pay increases of only 1% p.a. for 4 years from 2016/17 (i.e. to 2019/20).

   The analysis explores the suitability of different long term flat rate assumptions for pay growth from 2016 onwards, allowing for the proposed Government salary freeze until 2020 followed by a higher long term assumption thereafter.

3.12 It is no longer appropriate to set the pay growth assumption, used to value the past service liabilities at the 2016 valuation, equal to the historic average. This report suggests that an appropriate 2016 valuation pay growth assumption would be 1% p.a. until 2020 reverting to a long term rate of RPI p.a. thereafter.

4 FINANCIAL CONSIDERATIONS

4.1 There are significant financial considerations associated with calculating the 2016 Actuarial Valuation as this contributes to the process of setting the employers' contribution rate.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Acting Council Solicitor & Acting Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Chief Executives department, ext. 62552.

BACKGROUND DOCUMENTS:	None
APPENDIX A:	2016 Actuarial Valuation: Setting discount rate and pay growth assumptions, Hymans Robertson.

2016 Actuarial Valuation

Setting discount rate and pay growth assumptions

Introduction

The next actuarial valuation of the Fund takes place as at 31 March 2016. This paper provide comments on analysis that can be used to agree two key valuation assumptions - the discount rate and the pay growth assumption.

Since the 2013 valuation, new Governance regulations have greatly increased the scrutiny that LGPS funds are under. LGPS funds will now be expected to be able to justify their actions, including choice of assumptions, to both internal and external parties. Additionally, as the Fund's funding plans are increasingly set via a risk based approach, the Fund also needs to understand the risk inherent in any choice of assumption. This paper will form part of the audit trail for the 2016 valuation.

The full reports on which the comments in this paper are based are attached as an appendix.

Discount rate

This assumption reflects the rate of investment return that the Fund expects to earn in future. The choice of discount rate is one of the key decisions made at the actuarial valuation. The discount rate is used to place a single 'present' value on a series of projected future benefit payments. The single value is known as the liabilities.

The discount rate assumption is set in two parts;

1 Current long dated UK Government Fixed Interest bond yields, plus

2 The Asset Outperformance Assumption ("the AOA").

The current yield available on long dated UK Government bonds (1) is an estimate of the future 'risk-free' return that can be achieved by the Fund.

However it is expected that the Fund's assets will achieve higher returns due to the combination of riskier assets held by the Fund (e.g. equities, property and corporate bonds). The AOA (2) is a prudent estimate of the additional return expected to be achieved by the Fund's assets in the long term over and above the "risk-free" return available on long dated Government bonds. At the 2013 valuation, the AOA was set equal to 2.0% pa.

For the purpose of the 2016 valuation, it is important to set an AOA that reflects likely future experience, with allowance for prudence. The Fund should adopt an assumption that is appropriate based on the current investment strategy and is likely to remain appropriate under expected possible future changes to strategy.

To help inform the choice of AOA, modelling has been undertaken to better understand the level of prudence and downside risk inherent under differing levels of AOA (namely 1.8%, 2.0% or 2.2% pa).

2016 valuation AOA recommendation

The decision on the appropriate AOA level depends on how prudent the Fund wants to be, and on how it expects its investment strategy to change over the longer term (the next 20 or so years). There is no formal definition of "prudence" – typically an actuary might view an assumption as being prudent if there is at least a 2 in 3 chance of a positive outcome.

If the level of risk that is built into the Fund's current investment strategy (broadly 80% in growth assets) is likely to remain similar over the longer term, the analysis suggests that retaining the 2.0% AOA could be considered "prudent". If however the Fund were to "de-risk" to any significant extent over this period e.g. by moving from 80% to 60% in growth assets, an AOA of 1.8% pa may be more appropriate.

If the current investment strategy remains in place, the downside risk (measured by looking at what additional deficit recovery contributions would be payable under the worst 10% of possible funding outcomes) is around an extra 16% of pay pa in contributions. That downside risk would reduce to about 13% of pay if the Fund were to “de-risk” by moving 20% of its assets from growth to non-growth.

Pay growth

One of the key actuarial assumptions used to determine the value of the past service liabilities is that relating to future pay growth. This assumption comes in two parts;

- Annual ‘inflationary’ pay awards, historically set in order for employees’ pay to keep up with the cost of living, and
- Promotional pay awards or those awarded as part of a defined pay scale.

Our analysis considered the first element of the pay growth assumption only.

The assumption for annual ‘inflationary’ pay awards increases at the 2013 valuation was set equal to the rate of expected future RPI to reflect future pay growth expectations at that time. There are, however, two prevailing factors that necessitate a review of how the pay growth assumption is set;

1. LGPS benefits accrued from 1 April 2014 are no longer linked to members’ final pay due to the introduction of CARE benefit accrual. A Final Salary benefits underpin applies for members within 10 years of retirement at 1 April 2012, however it is unlikely that this will ‘bite’ in many cases due to the low salary growth environment we are currently experiencing. Future pay growth therefore only affects benefits built up before 31 March 2014. Although pre-2014 liabilities currently make up the vast majority of the Fund’s total active liabilities, this will diminish over time. The future period for which the pay growth assumption applies can therefore no longer simply be referred to as ‘long-term’.
2. Since 2010, pay growth in the public sector has been restricted and Government policy suggests that this is likely to persist in the near future. In particular, the Government announced during the Summer Budget on 8 July 2015 that funding would be provided to meet public sector pay increases of only 1% p.a. for 4 years from 2016/17 (i.e. to 2019/20).

The analysis explored the suitability of different long term flat rate assumptions for pay growth from 2016 onwards, allowing for the proposed Government salary freeze until 2020 followed by a higher long term assumption thereafter.

2016 valuation pay growth recommendation

It is no longer appropriate to set the pay growth assumption, used to value the past service liabilities at the 2016 valuation, equal to the historic average.

We suggest that an appropriate 2016 valuation pay growth assumption would be 1% p.a. until 2020 reverting to a long term rate of RPI p.a. thereafter.

Next step

I look forward to discussing and agreeing both assumptions with the Pensions Committee.

Richard Warden
Fund Actuary
For and on behalf of Hymans Robertson LLP

23 May 2016

Appendix A - Analysis of 2016 valuation AOA assumptions

2016 valuation – Asset Outperformance Assumption (AOA)

Addressee

This paper has been commissioned by and is addressed to Croydon Council in its capacity as Administering Authority to the London Borough of Croydon Pension Fund ("the Fund"). It has been prepared in my capacity as Fund Actuary.

Purpose

The next actuarial valuation of the Fund takes place as at 31 March 2016. This paper has been prepared to facilitate discussions on funding strategy and assumptions as part of the 2016 valuation process. In particular, this paper examines the choice of Asset Outperformance Assumption (AOA) at the 2016 valuation.

Background

The choice of discount rate (or assumed investment return) is one of the key decisions made at the actuarial valuation. This assumption is used to provide a present value of projected future benefit payments.

The discount rate assumption is set in two parts;

1 Current long dated UK Government bond yields (Fixed Interest), plus

2 The Asset Outperformance Assumption ("the AOA").

The current yield available on long dated UK Government bonds (1) is an estimate of the future 'risk-free' return that can be achieved by the Fund.

It is expected that the Fund's assets will achieve higher returns due to the combination of riskier assets held by the Fund (e.g. equities, property and corporate bonds). The AOA (2) is a prudent estimate of the additional return expected to be achieved by the Fund's assets in the long term over and above the 'risk-free' return available on long dated Government bonds.

At the 2013 valuation, the AOA was set equal to 2.0% p.a.. Since the 2013 valuation, the scrutiny LGPS funds are under has greatly increased. LGPS funds will now be expected to be able to justify their actions, including choice of assumptions, to both internal and external parties. Additionally, as the Fund's funding plans are increasingly set via a risk based approach, the Fund also needs to understand the risk inherent in any choice of AOA.

2016 valuation AOA

We have developed a model to allow a better understanding of the level of prudence and downside risk inherent in the valuation AOA.

The model assumes that the Fund has achieved its long term funding objective, i.e. full funding on a specified AOA 20 years from now. Based on a simplified representation of the Fund's long term asset strategy, the model provides two key risk metrics:

- **Probability of success -** The probability that the investment strategy would return at least what's required by the AOA, such that the Fund remains fully funded on the specified AOA a further 20 years in the future.
- **Downside risk measure -** The additional deficit recovery contributions that may be payable for a 20 year period due to the deficit that could emerge (measured as the average of the worst 10% of possible outcomes) if the funding level fell from full funding over a three year period.

Scenarios

The level of prudence and downside risk inherent in the following scenarios has been considered in this paper;

- AOA of 1.8% / 2.0% / 2.2%.
- Current (80% *growth* / 20% *matching*) and alternate (60/40) investment strategies.

The following parameters apply under all scenarios;

- A gearing ratio (i.e. the long term ratio of past service liabilities to pensionable payroll) of 10:1.
- A deficit spread period of 20 years.

Results

The following table shows the probability of success and downside risk measure associated with each scenario considered.

Probability of success

Probability of success		**Asset Outperformance Assumption (AOA)**		
		1.8%	**2.0%**	**2.2%**
Asset split (growth/matching)	Current (80/20)	**71%**	**69%**	**67%**
	Alternative (60/40)	**68%**	**64%**	**61%**

Setting an agreed level of prudence in the valuation discount rate involves an element of subjectivity. What is 'prudent' for one Actuary/Fund may not be considered 'prudent' for another Actuary/Fund. Typically, for pension scheme funding purposes, a prudent funding approach is one which delivers around a 67% probability of success. The criteria for the RAG assessment above is based on this, in particular;

- Green – Probability of success greater than 69%
- Amber – Probability of success between 65% and 69%
- Red – Probability of success less than 65%

Downside risk measure

Additional contributions required in the worst 10% of outcomes (% of pay p.a.)		**Asset Outperformance Assumption (AOA)**		
		1.8%	**2.0%**	**2.2%**
Asset split (growth/matching)	Current (80/20)	**16%**	**16%**	**16%**
	Alternative (60/40)	**13%**	**13%**	**13%**

Key observations

- Based on the current investment strategy (broadly 80% growth), the modelling suggests each scenario could be considered as prudent.
- The choice of AOA should be robust to future changes in investment strategy. In the event of the Fund adopting a lower risk investment strategy, the valuation AOA should still represent a 'prudent' estimate of future returns.
  - An AOA of 1.8% appears 'prudent' under both investment strategies
  - However, if the Fund is likely to reduce the level of investment risk in the future, an AOA of 2.0% or 2.2% may not be appropriate.
- The additional contributions required in the worst 10% of outcomes is lower under the alternate investment strategy. This is consistent with the reasons for adopting a lower-risk investment strategy.

Next steps

For the purpose of the 2016 valuation, it is important to set an AOA that reflects likely future experience, with allowance for prudence. The Fund should adopt an assumption that is appropriate based on the current investment strategy and will remain appropriate given expected possible future changes to strategy. Any choice should be reviewed again at the 2019 valuation.

The discount rate will be confirmed following the statutory valuation date of 31 March 2016 and the reasons for the choice should be documented for audit trail purposes.

I have only considered the specific scenarios set out in this paper. I can carry out further analysis in order to advise on the effect of alternative scenarios if required.

Model assumptions and limitations

The model is based on the following simplifying assumptions about the Fund's liabilities:

- The Fund remains open to new entrants and future accrual.
- The Fund is 100% funded on the specified AOA at outset.
- The evolution of the liability values is approximated using a portfolio of index-linked and fixed interest gilts (plus the assumed AOA).

For the assets:

- We split the portfolio at a very high level into *growth* and *matching;*
  - The *growth* portfolio is a combination (80:20) of equities and 'alternatives' (e.g. property and private equity).
  - The *matching* portfolio is assumed to be a perfectly matching portfolio of index-linked and fixed interest gilts (i.e. it's identical to the portfolio we use to approximate the liabilities).

The 'starting point' of the model is 20 years into the future (i.e. when the long term funding objective has been achieved). The economic conditions at this point are expected to persist for the following 20 year projection period of the model, in particular;

- Equity risk premium (in excess of cash) of 3% p.a.
- Equity volatility of returns of 18% p.a. (one-year standard deviation of returns).
- Risk premia of 1% and 4.5% for property and private equity respectively.
- Future CPI of 2% p.a.
- Central expectation for long-term, long maturity nominal (real) Government bond yields of around 4.5% (1.3%).

Reliance and Limitations

This paper has been prepared solely for the use of the Fund. This document should not be released or otherwise disclosed to any third party without our prior consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The following Technical Actuarial Standards[1] are applicable in relation to this paper:

- Pensions TAS
- TAS M - Modelling
- TAS R – Reporting; and

This paper complies with each of the above standards.

This paper and the 2013 valuation final results report dated 31 March 2014 comprise the aggregate report for this advice, in accordance with TAS R. It is expected that this report will also form part of the aggregate report for advice in connection with the 2016 valuation.

Prepared by:-

Richard Warden FFA

27 April 2016

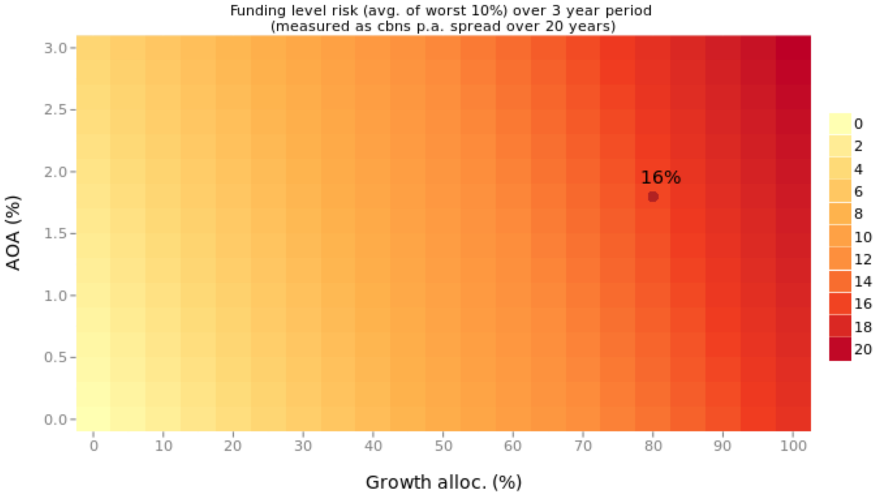
For and on behalf of Hymans Robertson LLP

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this paper.

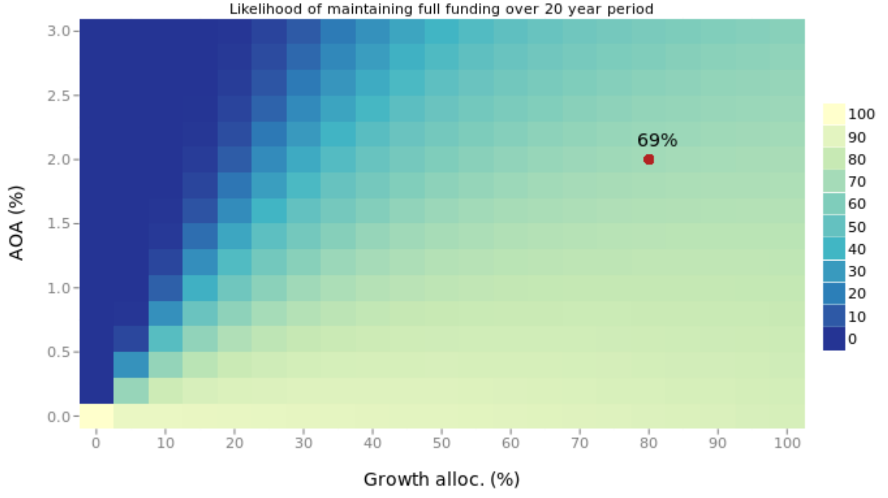
Appendix

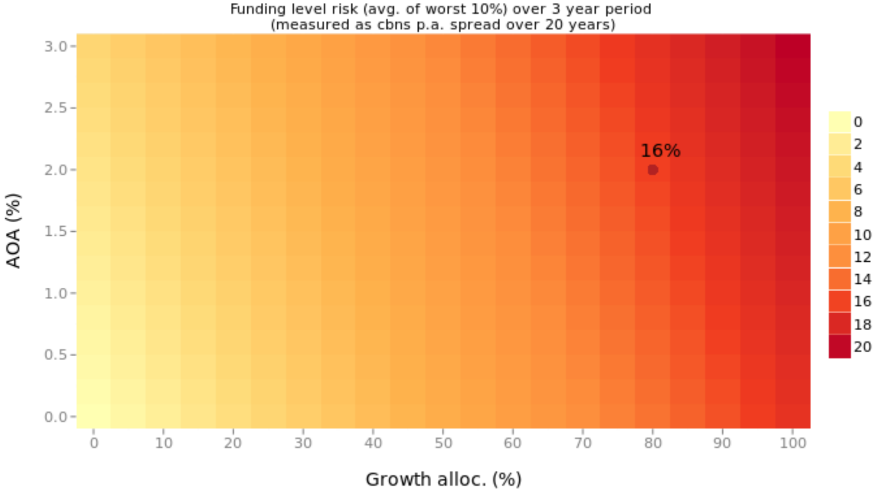
The following charts show the model output for each scenario considered in this paper.

Scenario 1 – 1.8% AOA / current investment strategy

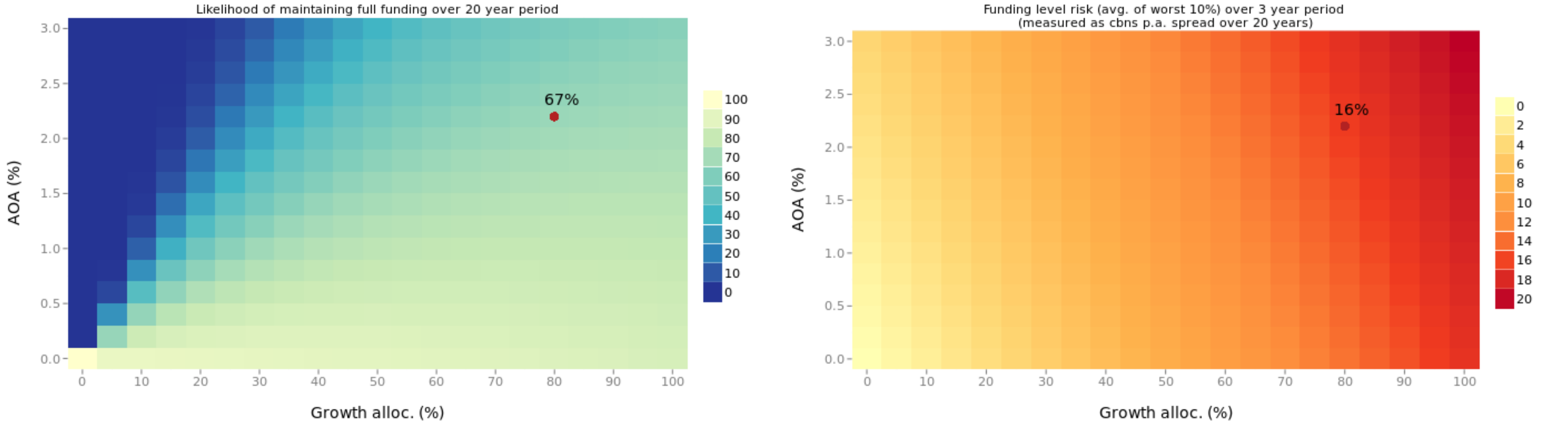


Scenario 2 – 2.0% AOA / current investment strategy

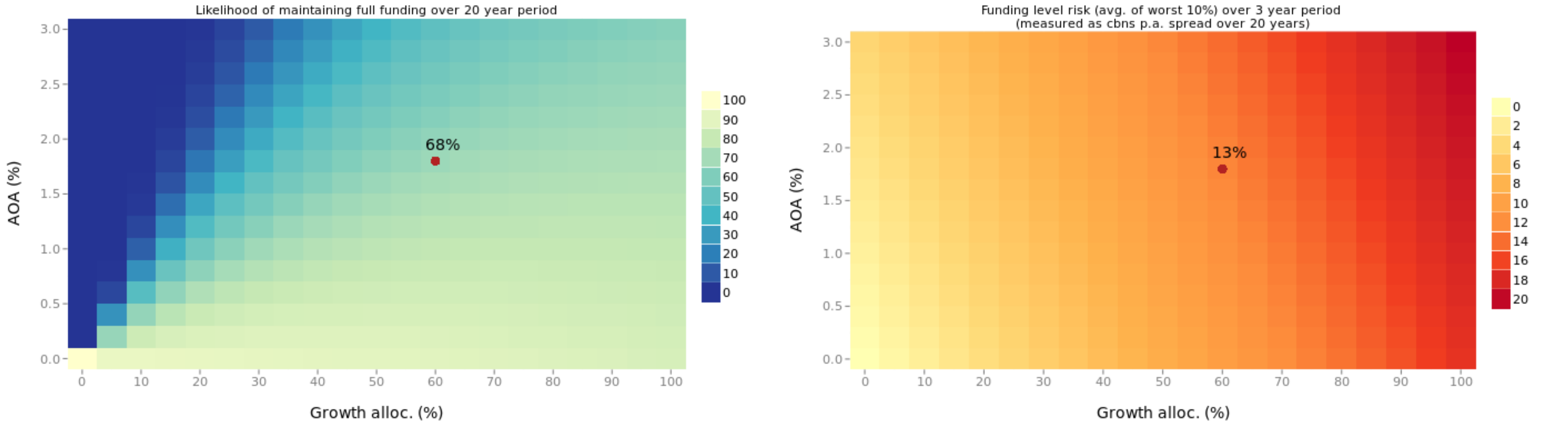




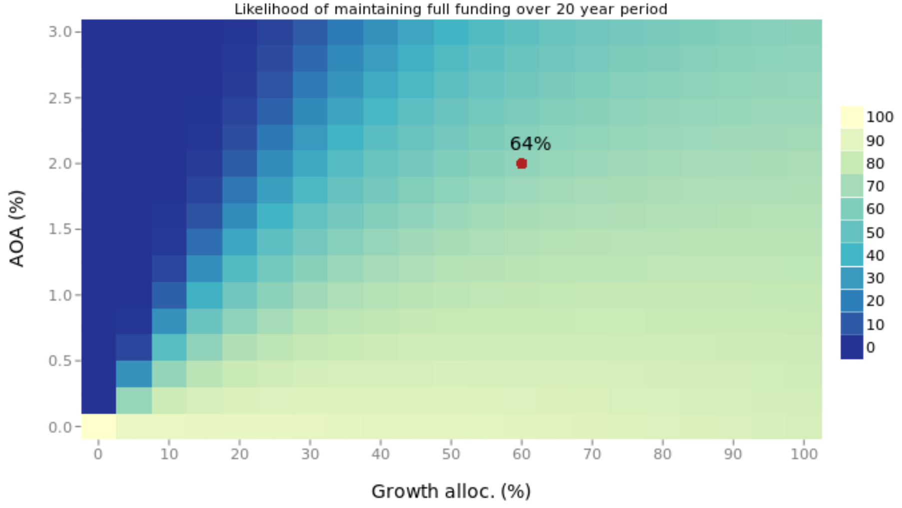
Scenario 3 – 2.2% AOA / current investment strategy

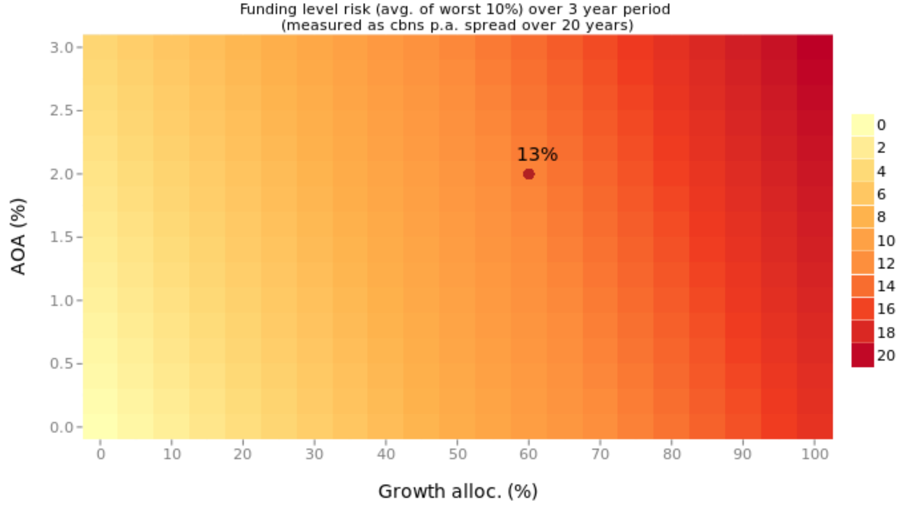


Scenario 4– 1.8% AOA / alternate investment strategy

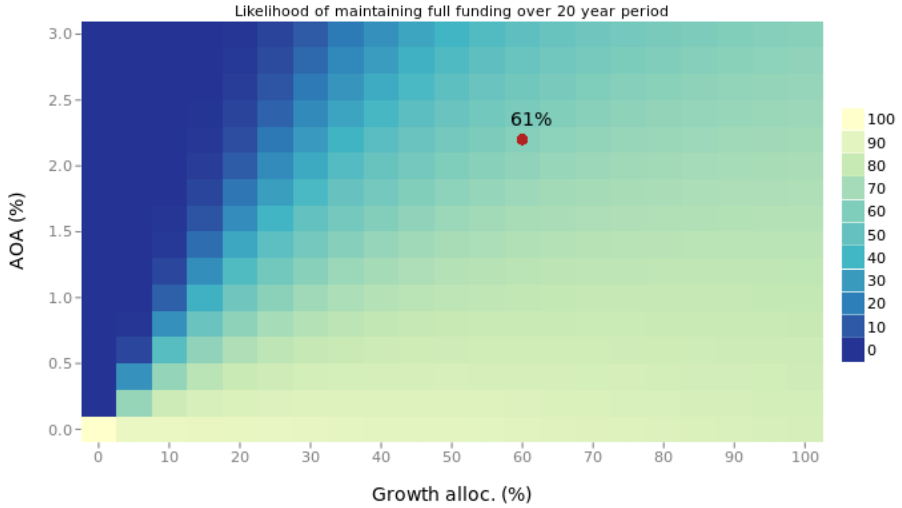


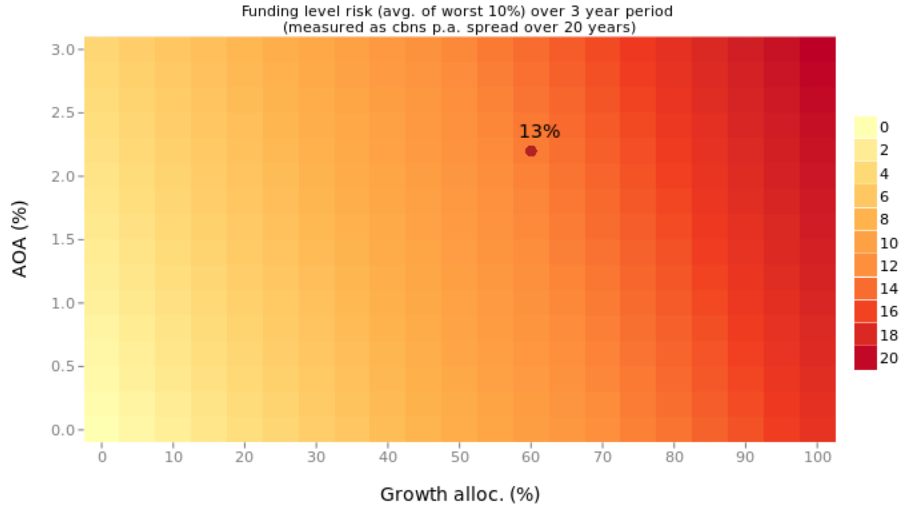
Scenario 5– 2.0% AOA / alternate investment strategy





Scenario 6– 2.2% AOA / alternate investment strategy





Appendix B - 2016 Valuation Pay Growth assumption

2016 valuation – pay growth assumption

Addressee

This paper has been commissioned by and is addressed to Croydon Council in its capacity as Administering Authority to the London Borough of Croydon Pension Fund ("the Fund"). It has been prepared in my capacity as Fund Actuary.

Purpose

The next actuarial valuation of the Fund takes place as at 31 March 2016. This paper has been prepared to facilitate discussions on funding strategy as part of the 2016 valuation process. In particular, this paper summarises the factors influencing the choice of pay growth assumption at the 2016 valuation in order to provide a recommendation for consideration by the Fund.

Background

One of the key actuarial assumptions used to determine the value of the past service liabilities is that relating to future pay growth. This assumption comes in two parts;

- Annual 'inflationary' pay awards, historically set in order for employees' pay to keep up with the cost of living, and
- Promotional pay awards or those awarded as part of a defined pay scale.

This paper considers the first element of the pay growth assumption only. Further details of the assumed promotional pay awards will be provided at a later date.

The assumption for 'cost of living' increases at the 2013 valuation was set equal to the rate of expected future RPI. This assumption reflected future pay growth expectations at the time of the 2013 valuation. There are, however, two prevailing factors that necessitate a review of how the pay growth assumption is set;

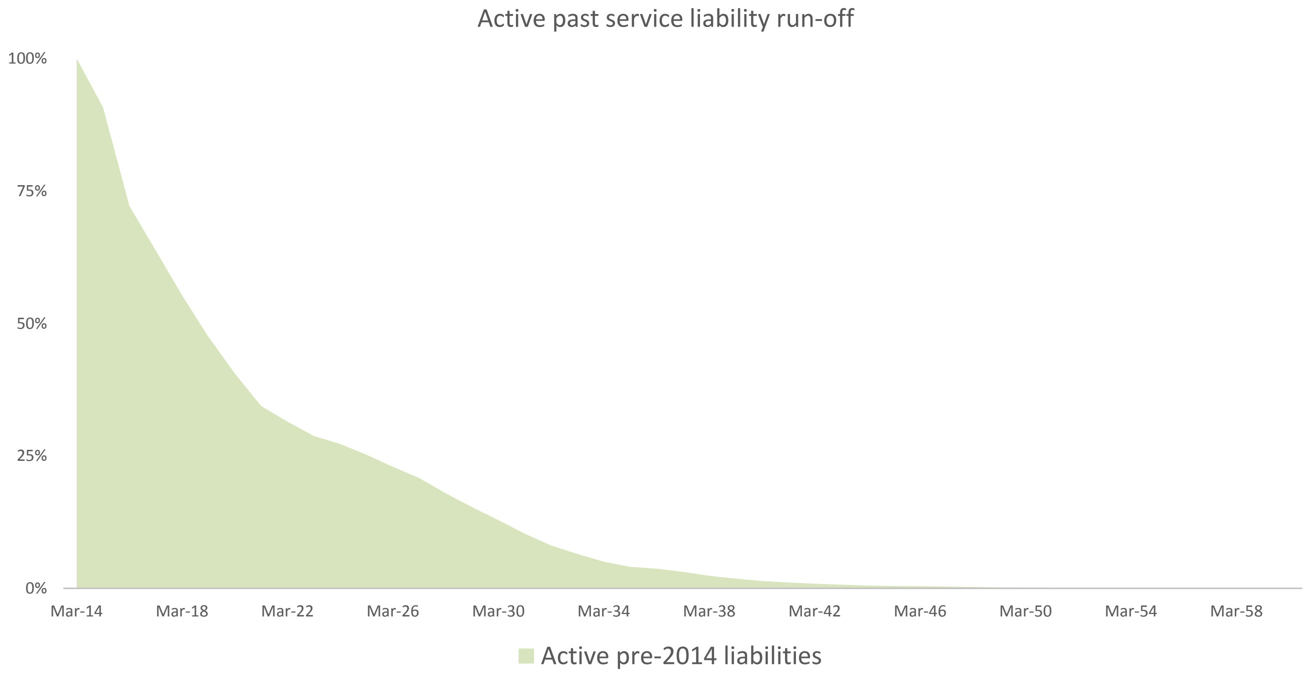
1. LGPS benefits accrued from 1 April 2014 are no longer linked to members' final pay due to the introduction of CARE benefit accrual. A Final Salary benefits underpin applies for members within 10 years of retirement at 1 April 2012, however it is unlikely that this will 'bite' in many cases due to the low salary growth environment we are currently experiencing. Future pay growth therefore only affects benefits built up to 31 March 2014. Although pre-2014 liabilities currently make up the vast majority of the Fund's total active liabilities, this will diminish over time. The future period for which the pay growth assumption applies can therefore no longer simply be referred to as 'long-term'.
2. Since 2010, pay growth in the public sector has been restricted and Government policy suggests that this is likely to persist in the near future. In particular, the Government announced during the Summer Budget on 8 July 2015 that funding would only be provided to meet public sector pay increases of 1% p.a. for 4 years from 2016/17 (i.e. to 2019/20).

When setting the pay growth assumption in order to value past service liabilities at the 2016 valuation it is no longer appropriate to set the future pay growth assumption equal to the historic average. This paper explores the impact of short term pay growth restrictions and the 'run-off' (or remaining payment period) of the Fund's pre-2014 active liabilities on the 2016 valuation pay growth assumption.

Active pay linked liabilities

Future pensions in respect of service accrued in the LGPS up to 31 March 2014 will be determined based on members' eventual final pay at retirement (or earlier withdrawal). Benefits accrued from 1 April 2014 are based on the members' pay over the year of accrual and future CPI increases (unless protected by the Final Salary underpin). When analysing the effect of future pay growth on the Fund's liabilities, only those liabilities accrued up to 31 March 2014 (i.e. pre-2014) should be considered.

The chart below shows the expected 'run-off' of the Fund's pre-2014 active liabilities, i.e. those active pre-2014 liabilities remaining each future year. The chart starts at 100% and falls eventually to zero as current active members with pre-14 benefits leave active status (due to retirement, withdrawal or death).



Observations;

- More than 50% of the pre-2014 active liability will no longer be active (and no longer be linked to members' pay) by 2020.
- Less than 15% of the existing pre-2014 active liabilities are expected to remain in 2031.
- By 2037, less than 5% of the existing pre-2014 active liabilities will still be active.

From this, we can see that the pay growth assumption has a diminishing impact on the Fund's total past service liabilities at each future triennial valuation.

Please note the above is based on the 2013 valuation results and therefore is only based on service accrued up to 31 March 2013. Nevertheless it is still a reasonable representation of the expected 'run-off' of pre 31 March 2014 liabilities as they stand.

Sensitivity to active withdrawal assumptions

The projection of the pre-2014 active liabilities shown above has been calculated based on the 2013 valuation active member withdrawal assumption. This is the assumed rate of members leaving active service to become deferred members of the fund (e.g. when leaving employment, opting out the fund, etc). This assumption is set based on age, gender, job type and length of service.

Varying the withdrawal assumption will impact on the length and pace of run-off of active liabilities in the projections.

Future pay progression

The Government announced during the Summer Budget on 8 July 2015 that it would only finance pay increases in the public sector of 1% p.a. for 4 years from 2016-17 (which we assume to mean until the 2019/20 financial year).

From the previous section we can see that more than half of the pre-2014 pay linked liabilities will have ‘run-off’ during this period of continued public sector pay restraint. Allowance for this should be made in the 2016 valuation assumption.

For pay growth following this period there are various arguments ranging between the following two extremes;

- Pay growth will rise substantially following the restricted period in order for public sector pay to ‘catch-up’ with historical averages.
- The public sector will continue to see low pay growth, possibly as a result of continued austerity and a lower reliance on the state.

In practice, public sector pay growth beyond 2020 will depend on a variety of factors (including the politics of the time). It is therefore extremely difficult to predict with any certainty what this is likely to be.

In order to help discussions around the setting of an ‘inflationary’ pay growth assumption at the 2016 valuation, we have focused on three scenarios;

1. As a minimum, it is reasonable to expect post 2020 pay growth to be no less than the **annual growth in CPI.**
2. Arguably, RPI is a better measure of the inflation experienced by the working population due to the inclusion of housing costs in the index (which are not included in the official CPI measure of inflation). This was the assumption for long term salary growth used by the Fund at the previous valuation. In addition, some of the key elements of an individual’s expenditure are set relative to RPI, for example regulated rail fares are currently increased each year in line with RPI plus 1% pa. Post 2020 pay growth negotiations may therefore be conducted on grounds that salaries (at least) keep pace with the **annual growth in RPI.**
3. **RPI plus 1% p.a.** could be considered at the higher end of what could be expected in the immediate years following 2020.

Variable pay growth and single valuation assumption

Methodology

The aim of this analysis is to obtain a suitable long term flat rate assumption for salary growth from 2016 onwards, allowing for the proposed Government salary freeze until 2020 followed by a higher long term assumption thereafter.

For each active member at the 2013 valuation, we have revalued their past service liabilities up to their assumed retirement age (making an allowance for withdrawals based on the 2013 valuation assumptions). Please note that no allowance was made for new active members joining the Fund, ill health early retirements or death in service in the projection.

The revaluation rate for each active member is a weighted average of:

- assumed salary increases (in line with the 3 scenarios set out below) in that year for the proportion of the benefit still in force that year; and
- CPI for the proportion of the benefits assumed to withdraw in that year

The salary increase assumption used in each scenario is as follows:

- Scenario 1: 1% p.a. until 2020 reverting to a long term rate of CPI p.a. thereafter
- Scenario 2: 1% p.a. until 2020 reverting to a long term rate of RPI p.a. thereafter
- Scenario 3: 1% p.a. until 2020 reverting to a long term rate of RPI plus 1.0% p.a. thereafter

An average revaluation rate was then calculated across all members weighted by liability to determine a single equivalent flat rate salary growth assumption.

Assumptions

In each projection shown we have adopted the following future inflation assumptions which are in line with those set for the 2013 valuation, updated for recent market conditions;

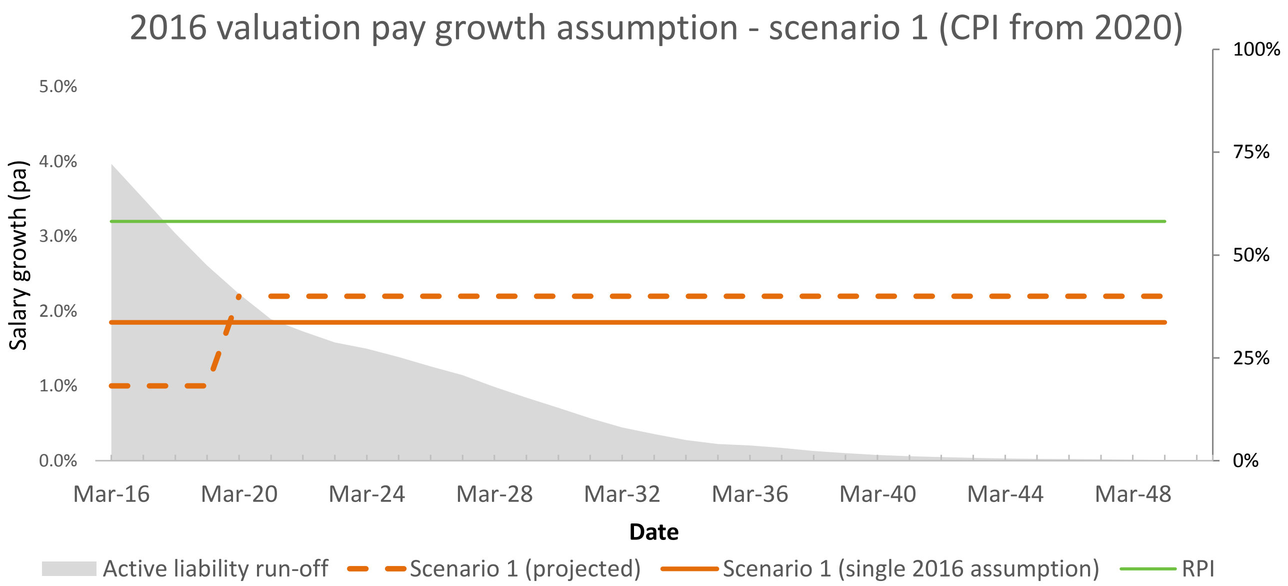
- RPI = 3.2% i.e. market implied RPI as at 31 March 2016.
- CPI = 2.2% i.e. adjusted RPI less 1% p.a. in respect of the assumed gap between RPI and CPI (the assumed gap between RPI and CPI at the 2013 valuation was 0.8% p.a.).

Results

	Scenario 1	Scenario 2	Scenario 3
Pay growth (per annum) - Short term (to 31 March 2020) - Long term (from 1 April 2020)	1% CPI (2.2%)	1% RPI (3.2%)	1% RPI + 1% (4.2%)
Single equivalent 2016 valuation assumption - Nominal - Relative to CPI	1.9% CPI less 0.3%	2.7% CPI plus 0.5%	3.3% CPI plus 1.1%
Change to past service deficit*	- £50m to - £60m	- £10m to - £20m	£0m to + £10m
Change in funding level*	+ 4% to + 5%	+ 1% to + 2%	Negligible

*Part of these changes will be as a result of the gap between RPI and CPI changing from 0.8% to 1%, as well as the difference in pay growth assumption used.

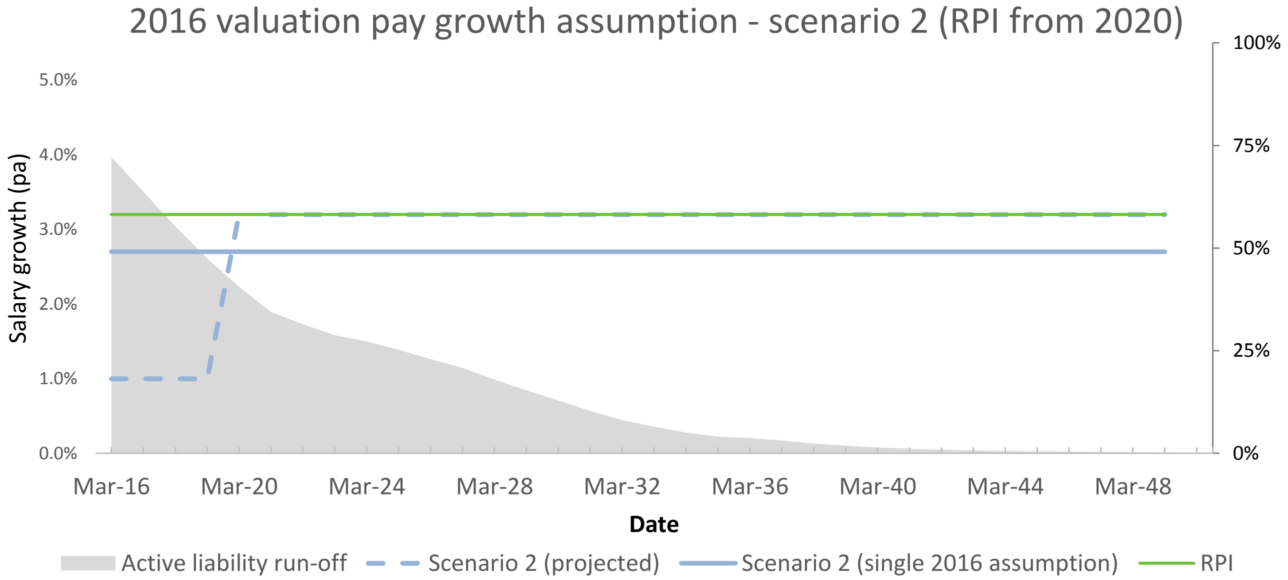
Scenario 1



Under scenario 1 (1% until 2020 followed by CPI increases thereafter), the equivalent single pay growth assumption at the valuation is 2.0% pa, based on current market conditions, which can be expressed as CPI less 0.2% pa.

The current pay growth assumption (set at the 2013 valuation) is equal to market implied RPI. The effect of the change from the current pay growth assumption to that implied under scenario 1 (in isolation) would be a reduction in the deficit of between £50m to £60m, which is equivalent to an increase in the reported funding level of between 4% to 5%.

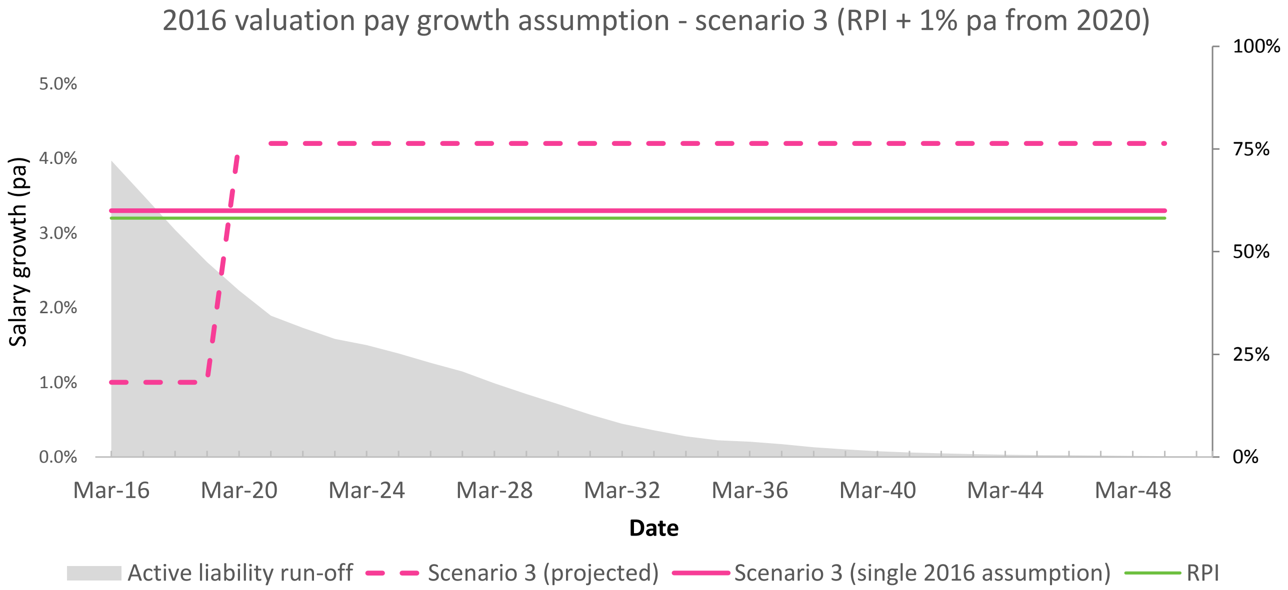
Scenario 2



Under scenario 2 (1% until 2020 followed by RPI increases thereafter), the equivalent single pay growth assumption at the valuation is 2.7% pa, based on current market conditions, which can be expressed as CPI plus 0.5% p.a..

The effect of the change from the current pay growth assumption to that implied under scenario 2 (in isolation) would be a reduction in the deficit of between £10m to £20m, which is equivalent to an increase in the reported funding level of between 1% to 2%.

Scenario 3



Under scenario 3 (1% until 2020 followed by RPI plus 1% p.a. increases thereafter), the equivalent single pay growth assumption at the valuation would be 3.3% p.a., based on current market conditions, which can be expressed as CPI plus 1.1% p.a..

The effect of the change from the current pay growth assumption to that implied under scenario 3 (in isolation) would be an increase in the deficit of between £0m to £10m, which is equivalent to a negligible change in the reported funding level.

Next steps

For the purpose of the 2016 valuation, it is important to set a future pay growth assumption that reflects likely future experience. Each scenario presented in this paper is plausible and we attach no probability to them.

The choice of assumptions for the 2016 valuation should be based on your view of future salary increases and the potential range of increases that may be awarded across all employers. We would be happy to discuss this further.

We recommend that annual pay growth checks are put in place to protect the Fund against employers who give salary increases which are higher than assumed pay growth. Any additional strain on the Fund caused by higher than expected salary increases could be charged to employers in a similar manner to early retirement strains. We are happy to discuss how this would work in practice.

We have only considered three specific scenarios in this paper. We can carry out further analysis in order to advise on the effect of alternative scenarios if required.

Reliance and Limitations

This paper has been prepared solely for the use of the Fund. This document should not be released or otherwise disclosed to any third party without our prior consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The following limitations apply in relation to this advice;

- The data used for this advice was that provided for the 2013 valuation. As such, the pre-2014 liabilities referred to in the report are specifically the liabilities built up to 31 March 2013. Allowance for the additional year's benefit accrual to 31 March 2014 would not lead to a material change in the shape of the active liability run-off or the outcomes derived from this analysis.
- No allowance has been made in this analysis for members aged 55 or over on 1 April 2012 and therefore entitled to the final salary benefit underpin. Due to the nature of these liabilities, i.e. these members are expected to have left active service prior to 2022, this is expected to have only a negligible impact on the shape of the active liability run-off and the outcomes derived from this analysis.
- No allowance is made in the analysis for early retirements (either voluntary or as a result of redundancy), ill health retirements or death before retirement.
- The analysis is based on the withdrawal assumption set at the 2013 valuation. Although this assumption is likely to be revised at the 2016 valuation, I do not expect this to have a material impact on the outcomes from this analysis.
- My analysis allows for a gap between RPI and CPI of 1.0%, which is consistent with what we will assume at the 2016 valuation.

The following Technical Actuarial Standards[1] are applicable in relation to this paper:

- Pensions TAS
- TAS M - Modelling
- TAS R – Reporting; and
- TAS D – Data.

This paper complies with each of the above standards.

This paper and the 2013 valuation final results report dated 31 March 2014 comprise the aggregate report for this advice, in accordance with TAS R.

Prepared by:-

Richard Warden FFA

27 April 2016

For and on behalf of Hymans Robertson LLP

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this paper.

Appendix

Data and assumptions

Data

The member data used in this analysis was that supplied for the purposes of the 2013 formal valuation. This is summarised in the table below.

	Number	Actual pay/ pension (£000)
Total employee membership	7,422	140,882

Please note that the data used may not be an accurate reflection of the current active membership. In particular, I have not adjusted the data to allow for new entrants, new deferrals, deaths and retirements since the 2013 valuation. The only way to capture the actual experience of the Fund since the 2013 valuation would be to consider this exercise based on updated data at a recent date.

Assumptions

The financial and demographic assumptions adopted at the 2013 valuation are described in detail in the 2013 valuation final report, dated 31 March 2014.

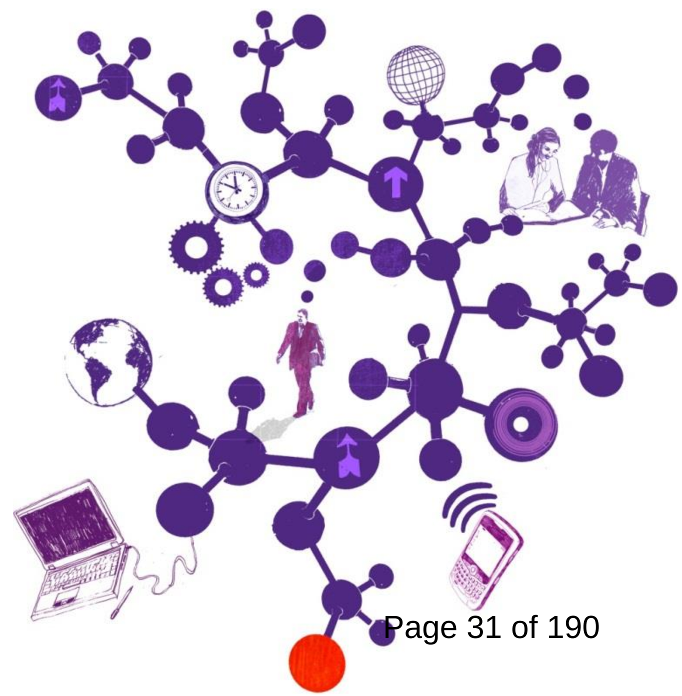
The inflation assumptions used for the purpose of the analysis set out in this paper were based on market conditions as at 31 March 2016, as summarised below.

	31 March 2013	31 March 2016
	% per annum	% per annum
Market Implied RPI	3.3%	3.2%
RPI / CPI gap	0.8%	1.0%
CPI	2.5%	2.2%

The Audit Plan
for Croydon Council Pension Fund

Year ending 31 March 2016

May 2016



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Croydon Council Pension Fund
Bernard Weatherill House
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CR0 1EA

26 May 2016

Dear Members of the Pension Fund Committee

Audit Plan for Croydon Council Pension Fund for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Croydon Council Pension Fund, the Pension Fund Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Elizabeth Olive

Engagement Lead

Contents

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Pooling of Investments

- As part of the summer budget 2015 the government invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects
- The Council joined the London CIV but has not yet transferred any investments

2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk

3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund

4. Local Government Outsourcing

- As many Council's look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. it is also likely to increase the administration costs of the scheme overall

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require fund's to bring forward the approval of draft accounts and the audit of financial statements to the 31 May and 31 July respectively by the 2017/18 financial year

Our response

1. Pooling of Investments

- We will continue to discuss with officers their plans for asset pooling in the London CIV and the implications that this will have on both the investment policy and governance arrangements of the fund

2. Changes to the investment regulations

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments

3. Governance arrangements

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments
- We will continue to share emerging good practice with officers

4. Local Government Outsourcing

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund

5. Earlier closedown of accounts

- We will work with you to identify areas of your accounts production where you can learn from good practice in others
- We aim to complete all substantive work in our audit of your pension fund financial statements by 29 July 2016

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure on going compliance with the Code

3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems In place to maintain and report on this data

4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs
- This guidance is currently being updated

Our response

1. Financial Pressures

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate

2. Financial Reporting

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing

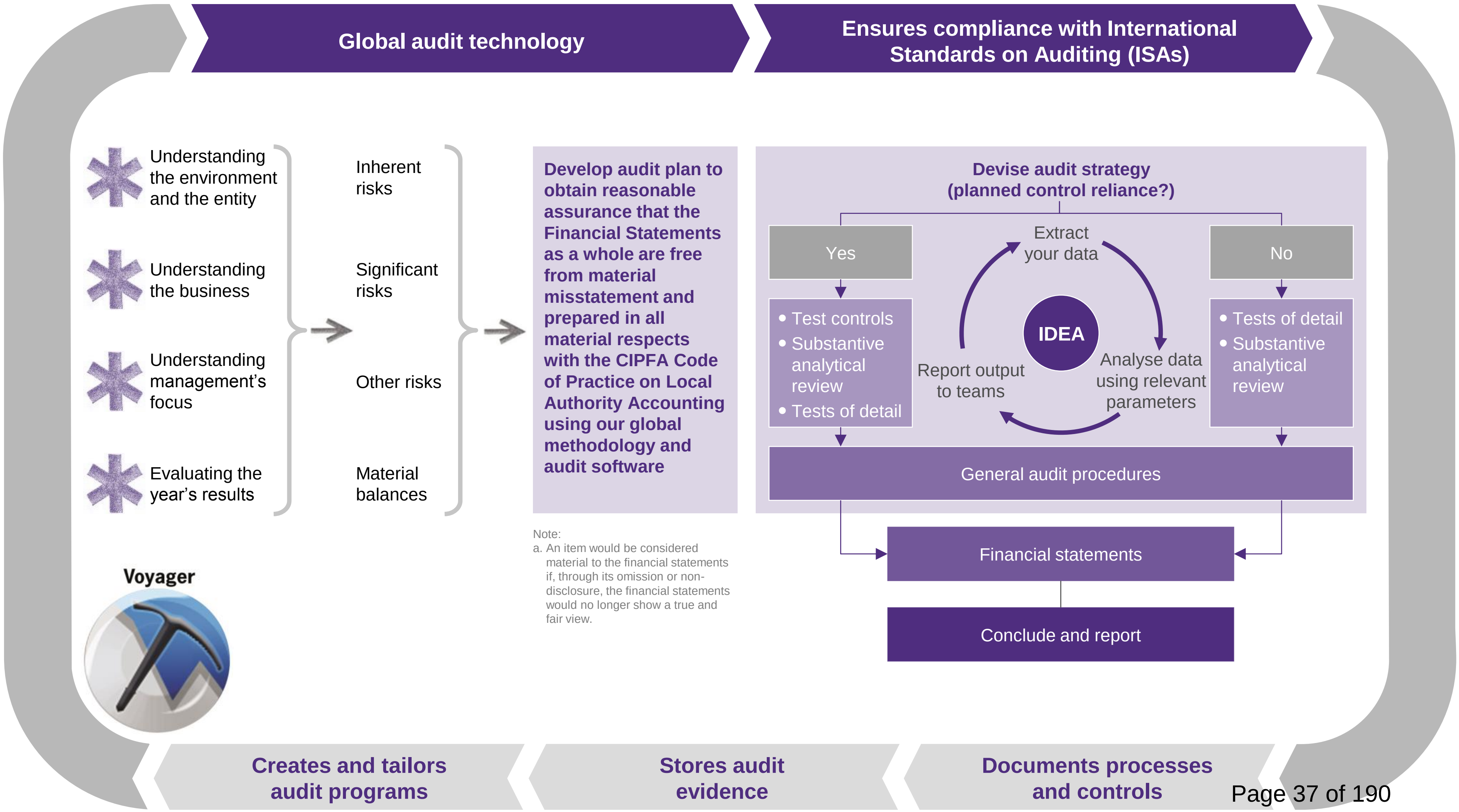
3. LGPS 2014

- We will continue to review the arrangements that the fund has in place for the quality of its' membership data

4. Accounting for Fund management costs

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit we have determined overall materiality to be £8,606k (being 1% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £430k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have not identified any items where separate materiality levels are appropriate.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Croydon Council Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Croydon Council as the administering authority, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**Work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Level 3 Investments – Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	**Work completed to date:** • We have identified the controls put in place by management to ensure the valuation of level 3 investments is not materially misstated at year end. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement **Further work planned:** • For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. We will ensure that accounting entries in the financial statements are consistent with our understanding of supporting documentation and with the requirements of the CIPFA Code of Practice. • To review the nature and basis of estimated values

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Investment values – Level 2 investments	Valuation is incorrect (Valuation net)	**Work completed to date:** • We have performed walkthrough tests of the controls identified in the cycle **Work planned:** • We will review the reconciliation between information provided by the fund managers and the Fund's own records and seek explanations for any variances • We will select a sample of the individual investments held by the fund at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments)
Investment purchases and sales	Investment activity not valid. Investment valuation not correct. (Valuation Gross)	**Work completed to date:** • We have performed walkthrough tests of the controls identified in the cycle **Work planned:** • We will test a sample of purchases and sales to fund manager records to ensure they are appropriate
Contributions	Recorded contributions not correct (Existence, Occurrence)	**Work completed to date:** • We have performed walkthrough tests of the controls identified in the cycle **Work planned:** • We will test a sample of contributions to source data to gain assurance over their accuracy and occurrence. • We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Other risks identified (continued)

Other risks	Description	Audit approach
Benefits payable	Benefits improperly computed/claims liability understated (Completeness,)	**Work completed to date:** • We have performed walkthrough tests of the controls identified in the cycle **Work planned:** • We will test a sample of individual pensions in payment by reference to member files. • Controls testing over, completeness, accuracy and occurrence of benefit payments, • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct. (Rights and Obligations)	**Work completed to date:** • We have performed walkthrough tests of the controls identified in the cycle **Work planned:** • We will test controls testing over verifications with individual members • We will test a sample of changes to member data made during the year to source documentation

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Cash deposits
- Current Assets
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments

Other audit responsibilities

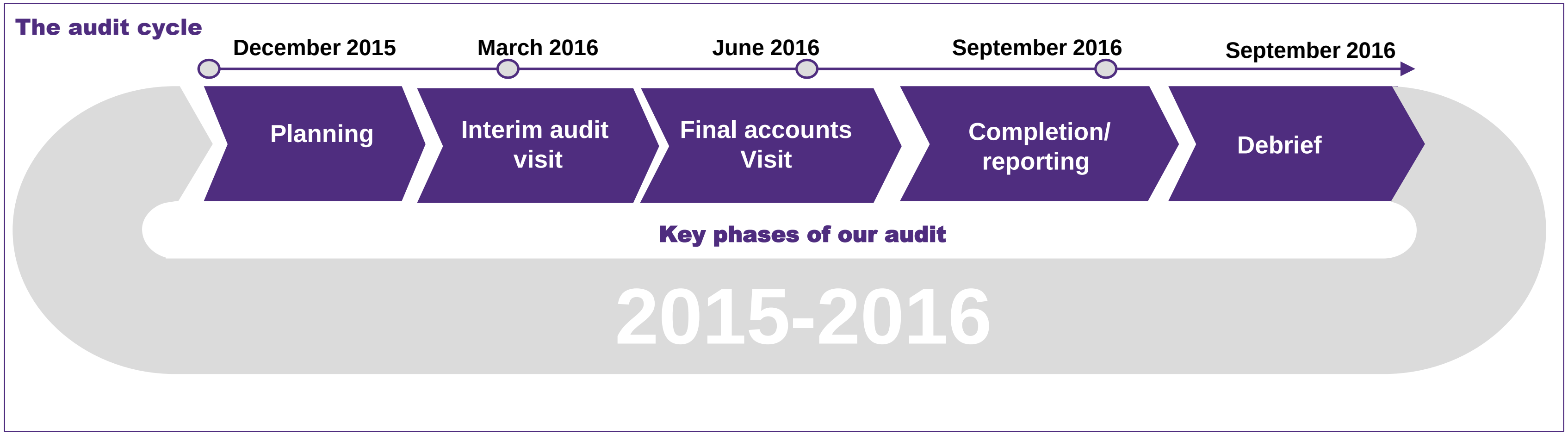
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the fund's financial statements
Walkthrough testing	We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.

Key dates



Date	Activity
December 2015	Planning
March 2016	Interim site visit
07 June 2016	Presentation of audit plan to Pension Fund Committee
June 2016	Year end fieldwork
September 2016	Report audit findings to those charged with governance (Pension Fund Committee)
By 30 September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Pension Fund Scale Fee (excluding VAT)	21,000

Fees for other services

Service	Fees £
Audit related services:	Nil
Non-audit services	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Administering Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Croydon Council

REPORT TO:	**PENSION COMMITTEE** **7 June 2016**
AGENDA ITEM:	**8**
SUBJECT:	**Procurement of Pension Fund Services through the National LGPS Framework**
LEAD OFFICER:	**Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: Procurement of Pension Fund Services through the National LGPS Framework will deliver an OJEU compliant process faster, more efficiently and cheaper than using an individual authority procurement route.

FINANCIAL SUMMARY: Use of the National Framework should deliver significant procurement savings and the most competitive fee structure on offer to the LGPS.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1. RECOMMENDATIONS

1.1 This report recommends to the Committee that:

The contract for Pension fund investment consulting services, which is currently with AON Hewitt and will end 16 April 2017;
The contract for Actuarial and benefit consulting services, which is currently with Hymans Robertson and will end 28 February 2017; and
Legal services, in relation to the LGPS only;

are re-procured through the National LGPS Framework.

1.2 This report further recommends that officers are mandated to explore the option of jointly procuring Performance measurement services for the Pension Fund with partners within the London LGPS Pool,or more widely should the opportunity arise.

2. EXECUTIVE SUMMARY

2.1 Four key contracts for Pension Fund services could be procured jointly or through the National LGPS Framework. This would save costs and time, attract bids from the key suppliers and provide the most efficient procurement solution.

3. DETAIL

3.1 National Local Government Pension Scheme (LGPS) frameworks were established by a group of administering authorities, including Croydon Council, to build on the procurement frameworks developed by this Council. The goal of the project was to enable key, universal pension fund services, to be procured faster, more efficiently and cheaper and to ensure that costs were bench-marked across the LGPS. This would lead to both savings in procurement costs and savings against fees for professional services.

3.2 In summary, the benefits of using the National Framework to administering authorities include:

- Access to a fast, efficient, easy to use OJEU compliant procurement frameworks that removes the need to undertake costly and time-consuming full OJEU procurement processes;
- A significant reduction in procurement timescales from six to nine months to as little as 4 to 6 weeks;
- Reduced procurement costs – reduced by up to 90%;
- Flexibility in the planning and running of tender processes via mini-competition;
- Robust frameworks resulting from thorough professional due diligence;

- The fact that the more money that is spent through the framework, the better prices are available for Funds using it;
- Pre-agreed terms and conditions, which means less expenditure on legal costs and a better understanding of ther nature of the contract;
- Ceiling prices that can be further reduced by competition at call off;
- Detailed and easy to use guides, support and templates; and
- Additional benefits, for example allowing user groups to optimise the LGPS buying power.

3.3 Croydon has long been an advocate of this approach but have been unable to take advantage of this facility because of the timing of the existing Croydon Framework contracts. However, an opportunity now exists to take advantage of the Frameworks:

The existing Framework Agreement Contract for the provision of pension fund investment consulting services Pension Fund investment advice is in its two-year extension period, from 17 April 2015 to 16 April 2017;

The Framework Agreement Contract for the provision of Actuarial and Benefit Consulting Services runs up to 28 February 2017.

3.4 Additionally, the National Framework now offers a Legal Services Framework which will be available for Further Competition and Direct Award until January 2019. Contracts awarded under the framework may be for a period of up to 7 years. Funds can use the framework to procure legal services matched to their own specific requirements; from small, one-off pieces of work to longer-term, single supplier arrangements. All of the providers are specialists in Investment, Benefits Administration, Employer Bodies and Governance.

3.5 Performance measurement services for the Pension Fund are provided The World Markets Company (WM) who recently became part of State Street Global Services – Performance Services. In March 2016 the bank announced that they were terminating this arrangement from 30 June 2016. A Canadian company, CEM Benchmarking, has been appointed to undertake an exercise to benchmark costs within each of the putative LGPS pools and one other London Borough is considering options to jointly procure this service.

3.6 The benefits of procuring services through Framework purchasing agreements are well-understood. They include savings on procurement costs; competitive fees and charges; shorter project timelines; reliance on thorough due diligence and legal reviews; and bulk discounts. Ceiling costs have been negotiated for all services provided through the Framework but individual authorities can negotiate these costs down and bulk rebates are built into the contracts. Croydon has invested time and effort in the establishment of the National LGPS Framework, has confidence in the team, and can place reliance on their documentation, much of which originates from work on the Croydon Frameworks.

3.7 One of the most attractive aspects of the framework as a means to procure services, apart from the fact that fees are pre-determined for the life of the contract and can be driven down by volumes or negotiation, is the flexibility in design. The Actuarial services contract is divided into two lots:

Lot 1 - Actuarial Services;
Lot 2 - Benefit Consultancy Services;

With six providers. Each lot comprises the wide range of services expected from experienced providers. The Investment Consultancy Services contract is also a multiple user single lot framework with six providers and provides services including but not limited to:

- Review of asset allocation, investment strategy and investment management structure;
- Working with the Fund Actuary to undertake asset liability modelling as required;
- Monitoring and reporting of investment managers and producing quarterly reports based on data provided by the measuring company or incorporating other third party reporting as may be required in a cost effective manner;
- Attendance at meetings as required;
- Providing training to Members and officers as required;
- Advising on the Statement of Investment Principles;
- Advising on the Pension Fund Annual Report;
- Advising on controlling investment costs including fees and transaction related costs;
- Advising on alternative investments;
- Advising on Corporate Governance and Socially Responsible Investment policies;
- Advising on Manager selection; and
- Advising on investment markets and the outlook for different asset classes.

3.8 In terms of establishing a Pension Fund services procurement strategy, there are two routes open to the Council. The traditional route, open competition following OJEU procedures, attracts legal and procurement costs and will take approximately 6 months to complete. As stated above, the Framework process can be completed within 6 weeks. The field of suppliers is well known: all are available through the Framework but not all will always tender for individual contracts. Where the National LGPS Framework does not offer a service, such as is currently the case in regards to performance measurement services, collaborative or joint procurement offers an more efficient and value for money compared to individual contracting arrangements.

3.9 This report recommends that:

Pension fund investment consulting services;
Actuarial and benefit consulting services; and
Legal services in relation to the LGPS only;

are procured through the National LGPS Framework.

This report further recommends that officers are mandated to explore the option of jointly procuring Performance measurement services for the Pension Fund with partners within the London LGPS Pool,or more widely should the opportunity arise.

This report recommends that an update on these procurement projects be brought back to the Committee in a timely fashion.

4. FINANCIAL CONSIDERATIONS

4.1 Savings on the process of procuring these Pension Fund Services should be significant: these costs are charged to the Pension Fund. The ongoing fees and charges relating to these services are also significant so any savings will impact on the long-term viability of the Scheme. Use of the National Framework should deliver significant procurement savings and the most competitive fee structure on offer to the LGPS.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Acting Council Solicitor & Acting Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS: none

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Croydon Council

REPORT TO:	**PENSION COMMITTEE** **7June 2016**
AGENDA ITEM:	**9**
SUBJECT:	**Review of Croydon Council Local Government Pension Scheme Communication Policy Statement**
LEAD OFFICER:	**Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: The Communications strategy is a key component of the suite of policies comprising the governance arrangements for the administration of the Local Government Pension Scheme.

FINANCIAL SUMMARY:

There are no financial considerations arising from this report.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1. RECOMMENDATIONS

1.1 This report recommends that the Pension Committee approve the draft Communication Policy Statement, after due considerations and offering any comments they feel appropriate.

2. EXECUTIVE SUMMARY

2.1 An essential part of the governance arrangements for the Local Government Pension Scheme is an effective communication policy. This draft statement sets out this policy for Members' comment and consideration.

3. DETAIL

3.1 The Local Government Pension Scheme Regulations require each administering authority to publish a statement setting out its policy on communications to its stakeholders. The aim of the communication policy is to make sure that all stakeholders are kept informed of developments within the Pension Fund and relating to the Scheme. These stakeholders can be grouped together as follows:

- Contributing Scheme Members;
- Prospective Scheme Members;
- Pensioner Scheme Members and dependents of deceased Members;
- Deferred Scheme Members;
- Admitted & Scheduled Scheme Employers participating in the Fund;
- Elected Members
- Other Bodies

3.2 The policy acknowledges that different types of communication can be more appropriate for different stakeholders. Effective communications should assist in ensuring transparency in the way that the Scheme is administered which in turn should increase the efficiency and effectiveness of that administration.

3.3 The draft policy statement is attached to this report as Appendix A. It sets out, by group of stakeholders, just how the administering authority intends to communicate critical messages. The authority aims to use the most appropriate communication method for each distinct audience. This may involve using more than one medium of communication.

3.4 This document has been drafted as part of the collaborative framework arrangement with other administrating authorities, pooling resources and gaining the benefit of bulking up production costs.

4. RECOMMENDATIONS

4.1 This report recommends that the Pension Committee approve the draft Communication Policy Statement. Once approved the Statement will be published on the Croydon LGPS website.

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5 FINANCIAL CONSIDERATIONS

5.1 There are no further financial considerations flowing from this report.

6. OTHER CONSIDERATIONS

6.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

7. COMMENTS OF THE SOLICITOR TO THE COUNCIL

7.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Acting Council Solicitor & Acting Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Chief Executives department, ext. 62552.

BACKGROUND DOCUMENTS:	None
APPENDIX A:	Communication Policy Statement

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Pensions Communication Policy Statement

2016/17

Your Local Government Pension Scheme Guide

Your Guide to the London Borough of Croydon Communication Strategy

As the Administering Authority we have prepared this guide to help you understand the various Communication strategies that Croydon Council (as the Administering Authority) offers to all of its stakeholders

Communication Policy Statement

The Regulations require each administering authority in England and Wales to prepare, maintain and publish a statement setting out its policy on communicating with the following stakeholders and organisations:

- Contributing Scheme Members
- Prospective Scheme Members
- Pensioner Scheme Members and deceased dependents
- Deferred Scheme Members
- Admitted & Scheduled Scheme Employers participating in the Fund
- Communication with Elected Members
- Communication with the Local Pension Board
- Communication with Other Bodies

This document sets out the mechanisms which are used to meet our communication needs. We aim to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one medium of communication.

Objectives

The aim of this communication strategy is to make sure that all stakeholders are kept informed of developments within the Pension Fund. We want to ensure transparency and an effective communication process will help maintain the efficient running of the Scheme.

General Communications

We use a range of methods to communicate including a variety of paper-based and electronic means. The fund has a dedicated Pensions website www.croydonpensionscheme.org/

We will accept communications electronically and will respond electronically where possible. For security reasons, we will not use email for communicating sensitive information or where it is necessary to verify the address or identity of the sender.

Website
Communication in the form of a dedicated Pension Fund website is available which contains a wide range of information for not only scheme members but also scheme employers and other interested parties. The website can be accessed via the pensions website. The website contains copies of newsletters and other relevant information pertaining to the LGPS.

Policy Documents
These are available for all stakeholders to access on the website.

- **Contributing Scheme Members**

Member Self Service
All members can request their own password to view their record. Amendments can be made to update certain details and calculations can be performed.

Annual Benefit Statement
Members can access their individual information via the Member Self Service facility at their convenience. The Statement details information held on the Pension Section database and provides estimates of the current and future value of the members' benefits.

Pensions Newsletter
A newsletter is produced once a year and is sent to Members by email, it is also available on the Council website. The publication informs members of LGPS regulation changes and other related topics. The publication is also used to remind members of keeping the Pensions Section up-to-date with their details. Croydon Council have formed a collaborative working group with a number of other London Boroughs through a Framework Agreement. Communications and reducing cost are a key objective in our service to our membership.

Pensions Updates
When there are scheme changes there will be additional communication to Members, these will be sent via work email addresses, on the intranet and available on the website.

Pensions Open Day
The Council holds pensions open days to target specific topics or when major scheme changes occur, enabling members of the LGPS to have access to information, pension surgeries are also held at these events for member to make an appointment to discuss their benefits, retirement issues and the options available scheme members and prospective members.

Scheme Guides
Scheme guides are available on the website.

Pensions Helpline
Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

► Prospective Scheme Members

Initial Contact
All permanent new members of staff are automatically enrolled to the scheme. Each new member is sent a welcome letter statutory notice confirming membership of the LGPS along with our LGPS Scheme Guide, and contact information.

Inductions Seminars
Presentation on the scheme and its benefits are incorporated in the seminars held for all new employees of the Council, which are facilitated by H R, providing prospective new members of the scheme information in order for them to make an informed decision in regard to membership of the scheme.

Pensions Helpline
Prospective Scheme Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

► Pensioner Scheme Members and deceased dependents

Pensioner's Payslip
All pensioners receive a payslip in March, April, May along with their P60 at the end of the year. A payslip will also be received where the amount of net pension changes by more than £20.

Pensioner's Newsletter
All Pensioners receive an annual newsletter which is sent out in April and sent to their home address. This publication includes the pensions increase, and other relevant information. advertised on all our literature. The number is 0208 760 5768 x62892.

Life Certificates
The Fund will undertake an annual exercise, for U K pensioners over the age of 80, through correspondence in order to establish the details held are up-to-date.

For pensioners living abroad (outside the UK) this excise will be conducted through Western Union, in order to establish the details held are up-to-date.

Pensions Helpline
Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

► Deferred Scheme Members

Annual Benefit Statement
Once a year all members benefits are sent out in an Annual Benefit Statement direct to home addresses. The Statement summarises the details of your LGPS pension scheme benefits.

Update of Information
If there are any changes to the LGPS regulations which are relevant to Deferred Scheme Members correspondence will be sent directly to their latest home address held on the pensions database.

Pensions Helpline
Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

► Admitted & Scheduled Scheme Employers participating in the Fund

Employer Forums
Meetings are held quarterly for Employers; specifically this has been used as a mechanism for communicating major strategic issues, significant LGPS legislation changes, tri-annual valuation matters and the Funding Strategy Statement.

Employers are kept informed throughout the process of the tri-annual valuation which is carried out by the Councils Actuaries. The Employers' comments are always encouraged and welcomed and where appropriate taken into consideration.

Pensions Administration Strategy
the administration strategy sets out the roles and responsibilities of the Administering Authority (Croydon Council) the third party payroll providers and employers in the Pension Fund and can be found on the website at insert link It sets out the service level agreement and targets which all are expected to meet.

Employers' Guide
An Employers' guide has been produced to assist the smaller employers in discharging their pension administration responsibilities.

► Communication with Elected Members

Information will be provided to Council Members in order for them to be able to fulfil their duties under the role of administering authority.

Access to Pensions Committee
The Pensions Committee is the Committee which has delegated power to review, administer and monitor the Pension Fund.
The committee meets a minimum of four times a year or more frequently, as required. Meetings are open to members of the public, although there may be occasions when members of the public are excluded due to the confidential nature of matters under discussion. The agenda, reports and minutes of the meeting are available on the council's website https://secure.croydon.gov.uk/akscroydon/users/public/admin/kabmenu.pl?cmte=PEN

Committee Reports
Reports to Pensions Committee and to other Committees as necessary. Members are kept informed of developments in relation to Pension Fund issues and the impact that these can have on overall Council policies and procedures.

► Communication with the Local Pension Board

The Local Pension Board will meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

Reports to the Local Pensions Board
The Board will be treated in the same way as a Committee of Croydon Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pensions Committee.

► Communication with Other Bodies

There are a number of other interested parties with who we will communicate with as required, these include:

AVC Provider
AVC's (Additional Voluntary Contributions) are a way to top up your tax free lump sum and pension from your Local Government Pension Scheme. Croydon Council's AVC provider is Prudential. Contact details are available from Croydon Council's website.

Trade Unions/Employer Representatives
We will work with the relevant Trade Unions and Employer Representatives to ensure the Scheme is understood by all interested parties. All efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

Pension Fund Investment Managers, Advisers and Actuaries
Regular meetings with Fund Managers who invest funds on behalf of the Fund.
Regular meetings with Investment Advisers who provide help and advice on asset allocation and investment of the Fund.
Regular meetings with the Fund Actuary to discuss funding levels, employers contributions and valuation of the assets and liabilities of the Fund

Pension Fund Custodian
The Fund's Custodian is Bank of New York Mellon, who ensures the safekeeping of the Funds investment transactions and all related share certificates.

Pensions and Lifetime Savings Association (PLSA)
The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

Local Authority Pension Fund Forum (LAPFF)
The fund is a member of LAPFF. The LAPFF was established to help local authorities funds share information and ideas about socially responsible Investing.

London Pension Officers Group (LPOG) and London Pension Officers Forum (LPOF)
the Fund is a member of these voluntary groups. Meetings are held on a quarterly basis to share information and ensure standardised interpretation of LGPS regulations and best practice.

Requests for Information (FOI)
Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

Consultations
There are occasions when administering authority will consult with interested parties whether as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to Croydon Council Pension Scheme. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

Minority Groups
It is recognised that there may be occasions when some minority groups may not be able to access all the information available to others. The Pension Fund will try to ensure that information available to the widest possible audience and as such will try to ensure that minority groups do have access to information. This is however, a developing area, but feedback on how to promote better access for all minority groups is welcome.

Review of Communication Policy
This policy document will be reviewed annually and updated as required.
April 2016/17

The table below shows the availability of Fund publications along with their publication frequency and review periods.

Communication Material	Paper based	Electronic form	Internet for all to view	When published	When reviewed
Pension Scheme Guide	✓	✓	✓	Constantly available	Annually
Topping up Benefits	✓	✓	✓	Constantly available	Annually
Annual Benefits Statements	✓	✓	✗	Annually	Annually
Statutory Notifications	✓	✗	✓	On joining & Annual Benefit Statement	Annually
Members Self Service	✗	✓	✓	On joining	Continually
Pension Updates	✓	✓	✓	As required	After each publication
Annual Pension Fund Report	✓	✓	✓	Annually	Annually
Newsletter to Active Member	✓	✓	✓	Annually (if not more)	After each publication
Early Leaver information	✓	✓	✓	Sent with Deferred benefits statement	Annually
Retirement information	✓	✓	✓	Sent with retirement details	Annually
Pension Increase incorporated in the Pensioners Newsletter	✓	✓	✓	Annually	Annually
Actuarial valuation report	✓	✓	✓	Tri-annually	Tri-annually
Pension Fund Committee	✓	✓	✓	Quarterly	Quarterly
Communication Policy	✓	✓	✓	Upon request	Annually
Governance Compliance Statement	✓	✓	✓	Upon request	Annually

While these publications are reviewed within our timescales, these are also reviewed in conjunction with LGPS and other related legislation changes.

Further Information

This document is available in large sight and Braille upon request.

If you need more information about the Scheme you should contact the following:
Pensions Section
4G, Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Tele: 020 8760 5768 x 62892
Email: pensions@croydon.gov.uk
Website: www.croydonpensionscheme.org

Further Information
If you need more information about the Scheme you should contact the following:

Croydon Council
Resources & Customer Services
Pensions Section
6 Floor, Taberner House
Croydon
CR9 1JL

Tele: 020 8760 5768 x 62892
Email: pensions@croydon.gov.uk
Website:www.croydon.gov.uk

Further Information
If you need more information about the Scheme you should contact the following:

Croydon Council
Finance & Resources Department
Pensions Section
6th Floor, Taberner House
Park Lane
Croydon
CR9 1JL

Tele: 020 8760 5768 x 62892
Email: pensions@croydon.gov.uk
Website: www.croydon.gov.uk

Croydon Council

REPORT TO:	**PENSION COMMITTEE** **7June 2016**
AGENDA ITEM:	**10**
SUBJECT:	**Adoption of Discretions under the Local Government Pension Scheme Regulations in respect of Admitted Bodies that are closed to new Scheme entrants.**
LEAD OFFICER:	**Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151Officer)**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report is to inform the Pensions Committee that the policy 'Statement of Discretionary Powers' has been reviewed as part of an annual review of the Funds policy documents.	
FINANCIAL SUMMARY: There are no financial considerations arising from this report.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 This report recommends that the Committee adopts these discretions, listed in paragraphs 3.4 to 3.7 inclusive, in respect of deferred scheme members previously employed by admitted bodies who are now closed to new entrants and for whom there is no successor body.

2. EXECUTIVE SUMMARY

2.1 The regulations governing the Local Government Pensions Scheme (LGPS) allow a degree of local discretion. This report see approval of how the Council, as the administering authority of the Croydon LGPS intend to apply the discretion in respect of former Employers who have ceased to admit new entrants to the Scheme and for whom there is no successor body.

3. DETAIL

3.1 Local Government Pension Scheme (LGPS) Regulations (Benefits, Membership and Contributions) Regulations, 2007 provide the Council with a degree of discretion in how to apply a number of the regulations. At present there are 10 organisations that at some time have been admitted to the Croydon Scheme, but at present are closed to new entrants. There is no successor body to pick up these liabilities. These bodies range from former charities, now defunct, to large businesses no longer associated with the Council. Across these organisations there are 201 deferred members, effectively orphaned, but for whom the Council is ultimately liable for, in respect to payment of LGPS benefits. A number of the regulations offer the administrating authority a degree of discretion in how to treat these members and this report sets out the Council's policy for these. It should be noted that this policy is distinct from the discretions applied to Scheme members employed by the Council.

3.2 The administering authority is required to formulate, publish and keep under review a policy statement in relation to former Employers in the Fund who have ceased to exit and for whom there is no successor body (Regulation 66).

3.3 The discretions the Council should implement to comply with Regulation 66 are set out below. Note that Regulation 30 refers to former Scheme members and Regulation 30A to pensioners. These discretions are broadly consistent with those applied by the Council in comparable cases. In these instances the authority has the discretion such that 'payment may be allowed only on compassionate grounds and subject to, the former member providing independent proof that they are required to provide constant assistance to sick husband/wife, partner or child.' In other cases the Council has the discretion to review applications on a case by case basis. In the instances set out below, where there is no employer to apply discretion at a local level, the principles applied are:

- Make a payment where there is no additional cost to the Fund (strain costs);
- In compassionate cases where there is an actuarial reduction and / or additional costs to the Fund, the reduction is waived and the cost spread across all Scheme employers;
- In compassionate cases the Council will require independent proof that the applicant is required to provide constant assistance to sick a husband or wife, partner or child.

In other cases the procedures to be followed, such as referral to an Independent Registered Medical Practitioner, are suggested by the regulations. The need to define these discretions has become apparent with the growing number of 'orphaned' deferred Scheme members.

Discretions

3.4 **Regulation 30 (LGPS (Benefits etc.) Regs 2007). Choice of early payment of pension in cases where a member's former employer has ceased to exist**.

Where a member's former employer has ceased to exist and there is no successor body, and the administering authority can allow the early payment of deferred benefits to former members of the LGPS between the ages of 55 and 59. In such cases, pension benefits will be reduced in accordance with actuarial tables unless the administering authority waives reduction on compassionate grounds or a member has protected rights.

Policy Decision
Each case will be initially assessed taking account of the member's former employer's statement of policy. Where the policy allows for early payment of benefits, then this will be approved if there is no strain on the fund costs.

Where there is no former employer's statement or policy or if there is strain on the fund costs then the request for early payment of benefits will only be approved on compassionate grounds.

This is where a deferred member is unable to work because they are providing full time care to a dependant. In compassionate cases, any actuarial reduction will be waived and the strain on the fund costs will be met by all the Fund employers.

3.5 **Regulation 30A (LGPS (Benefits etc.) Regs 2007) Choice of early payment of pension: pensioner member with deferred benefits in cases where a member's former employing authority has ceased to exist.**

Where a member's former employer has ceased to exist and there is no successor or body, the administering authority can allow the early payment of deferred benefits to pensioner members of the LGPS between the ages of 55 and 59. A deferred pensioner member is a former employee retired on ill health grounds and the award of Tier 3 benefits that have now ceased.

Policy Decision
In such cases, pension benefits will be reduced in accordance with actuarial tables unless the administering authority waives reduction on compassionate grounds or a member has protected rights.

Each case will be initially assessed taking account of the member's former employer's statement of policy. Where the policy allows for early payment of benefits, then this will be approved if there is no strain on the fund costs.

Where there is no former employer's statement or policy or if there is strain on the fund costs then the request for early payment of benefits will only be approved on compassionate grounds.

This is where a deferred member is unable to work because they are providing full time care to a dependant. In compassionate cases, any actuarial reduction will be waived and the strain on the fund costs will be met by all the Fund employers.

3.6 **Regulation 31 LGPS (Benefits etc.) Regs 2007 Early payment of pension: ill health in cases where a member's former employing authority has ceased to exist.**

Where a member's former employer has ceased to exist and there is no successor body, the administering authority can allow the early payment of deferred benefits to a deferred member or the suspended Tier 3 ill health pension brought back into payment for a deferred pensioner member of the LGPS before Normal Retirement Age where a member has become permanently incapable of undertaking any gainful employment as defined in the LGPS Regulations 2008.

In the case of the deferred pension members, this could be because the original ill health condition has worsened or the member is suffering from another ill health condition that renders the deferred pensioner member permanently incapable of undertaking any gainful employment.

Policy Decision
Before deciding whether to agree to such a request, the Fund must obtain a certificate from an Independent Registered Medical Practitioner (IRMP) as to whether, in the IRMP's opinion, the member is suffering from a condition that renders the member permanently incapable of undertaking any gainful employment.

Where in the IRMP's opinion, the member is suffering from a condition that renders the member permanently incapable of undertaking any gainful employment, the Fund will approve the early payment of the deferred pension benefits or the deferred pensioners tier 3 ill health pension and the strain on the fund costs will be met by all Fund employers.

3.7 **Regulation 70 (LGPS (Admin) Regs 2008) Statement of policy concerning abatement of retirement pensions in new employment.**

Where a scheme member retires and seeks re-employment, if they choose to remain outside of local government sphere, their pension continues. If they return to an employer who participates in the LGPS, their pension can be reduced or stopped.

Subject to consultation with Fund employers, the administering authority has discretion to determine how it wishes to treat re-employed scheme members who retire after 31st March 1998.

Policy Decision
Where the re-employment starts before 1st April 2007, then the policy approved is:

(a) That any ill health pension should cease in the event or re-employment subject to the protection afforded to members who were subject to the 1995 Regulations;
(b) That with regard to other retirement pension no abatement be applied where the statutory pension in payment is £5,000 per annum or less, this amount to be increased in line with the annual index linking from April 1999 and thereafter; and
(c) That where an annual statutory pension exceeds £5,000 per annum then the statutory pension in excess of this amount be abated subject to the protection afforded to members who were subject to the e1995 Regulations.

Where the re-employment starts after 31st March 2007, there will be no abatement of the retirement pension.

4. RECOMMENDATIONS

4.1 This report recommends that the underlying principles that determine the use of discretion in applying the Local Government Pension Scheme (LGPS) Regulations (Benefits, Membership and Contributions) Regulations to scheme members employed by Croydon Council should also be applied in the discretions detailed above.

4.2 This report recommends that the Committee adopts these discretions in respect of deferred scheme members previously employed by admitted bodies who are now closed to new entrants and for whom there is no successor body.

5 FINANCIAL CONSIDERATIONS

5.1 These discretions allow the organization to incur payments that would fall to the Pension Fund and are an additional cost to all Scheme employers.

6. OTHER CONSIDERATIONS

6.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

7. COMMENTS OF THE SOLICITOR TO THE COUNCIL

7.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Acting Council Solicitor & Acting Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Chief Executives department, ext. 62552.

BACKGROUND DOCUMENTS: None.

Croydon Council

REPORT TO:	**PENSION COMMITTEE** **7 June 2016**
AGENDA ITEM:	**11**
SUBJECT:	**Academies in arrears of LGPS employer contributions**
LEAD OFFICER:	**Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: The Pension Regulator has issued guidance relating to employers unwilling to make contributions to the pension scheme. This report addresses this issue.

FINANCIAL SUMMARY:

To date contributions to the value of £645,227 are owed to the Pension Fund. This sum is made up of £597,365 in respect of 2015/2016 and £47,862 relating to the year earlier, 2014/2015.

FORWARD PLAN KEY DECISION REFERENCE NO: N/A

1. RECOMMENDATIONS

1.1 The Committee are asked to note the content of this report and the actions described below.

1.2 The Committee are asked to consider whether they believe the actions taken and those proposed are sufficient to discharge their responsibility under the Pensions Regulator's Guidance.

2. EXECUTIVE SUMMARY

2.1 A number of academies are unwilling to pay the employers contribution due from them to the Local Government Pension Scheme. This report describes how this amounts to a reportable breach of the regulations and describes the steps taken to resolve the contravention of the law.

3. DETAIL

3.1 When schools convert to Academy status the Scheme Actuary provides a Schedule of Results, detailing the employer liability, the assumptions and data contributing to that calculation and the contribution required from that employer. Staff contributions are calculated on a tiered basis as a proportion of pensionable pay. The employer contribution comprises a set percentage of the pensionable payroll plus a lump sum. This lump sum contribution represents the gap between the notional assets allocated to that employer and the forecast of liabilities, representing pension benefits relating to current and past staff employed by the school. This lump sum is spread over a period of years, in the same way that the Council deficit is recovered. The employer contribution can vary from school to school depending on the base data; most variations are around the number of staff in the LGPS and their individual profiles.

3.2 These assumptions have been debated by the Committee and the academies consulted. The current approach has been taken following this consultation – Minute A42/15 refers.

3.3 There are academies who contest this approach and dispute the results of the actuarial valuation. Although passing over the contributions collected from their staff they are either not paying or only paying in part their employer contributions. The following 15 schools and academies are in arrears:

Atwood Primary Academy
Edenham High School
St James the Great R.C. Primary
St Mary's Catholic Juniors
St Mary's Catholic Infants
West Thornton Primary Academy

STEP ACADEMY TRUST SCHOOLS
David Livingstone Academy
Gonville Academy
Heathfield Academy
Wolsey Junior Academy

OASIS ACADEMY TRUST
Oasis Academy Arena
Oasis Academy Byron
Oasis Academy Coulsdon
Oasis Academy Shirley Park

Oasis Academy Ryelands

Note that only the Step Academy Trust schools listed above are in arrears; others in the group have paid contributions due in full.

3.4 Officers have effectively exhausted options for engaging with these schools. This subject has been raised and discussed at the employers' forum; officers have met with schools individually and in groups and the former Chair and Vice-Chair have also engaged extensively, both via correspondence and in face to face meetings. The scheme actuary has met with representatives of academy trusts and with individual schools. These discussions date back to April 2011. Every opportunity has been offered to academies and schools considering conversion to academy status to meet with officers or with the scheme actuary.

3.5 At present these schools owe the Pension Fund £597,365 in respect of employer contributions relating to 2015/2016. A further £47,862 is owed for the financial year 2014/2015. In total £645,227 is owed by academies.

3.6 The authority has a statutory duty to report these breaches of the LGPS regulations. Although not trustees, the Pension Committee acts as trustees of the Scheme, and so should meet their obligations and duties under the Regulators Guidance to:

- monitor the payment of contributions to be paid under the schedule of contributions; and

- report payment failures of material significance to the regulator and to members within a reasonable period.

The Pensions Regulator has been notified of the arrears described above as required by the Guidance. As the Pension Committee is open to the public and as this report will be passed on to the Pension Board and feature in both bodies' annual reports, it is reasonable to assume that scheme members have also been notified of the breach.

3.7 The Pensions Regulator has published guidance, which applies to all schemes in Great Britain with valuation effective dates from 29 July 2014 onwards i.e. including this Scheme. It is officers' view that this is a reportable event because:

The sums involved are material;

The academies are not engaging with the administering authority which is interpreted as a refusal to pay;

The academies are not willing to pay and with the passage of time real questions are raised as to whether they are able to pay the outstanding contributions;

Officers have sent emails and made telephone calls and received no response from the schools;

In the instance of sums overdue relating to 2014/2015 contributions have been outstanding for ninety days from the due date.

3.8 The Department for Communities and Local Government (DCLG) have also been notified. They have stated that the Education Funding Agency (EFA) should be informed about non-compliance. They have also advised that this authority should notify the EFA of the details of which academies are not paying the correct rates. DCLG have stated that they will inform EFA of the detail of the Thomas Ferens case and the Ombudsman's ruling that the academy must pay the rate set, and let them know of the possible financial implications should the regulator decide to take action.

3.9 Here is a summary of the Thomas Ferens case:

The Academy (the Thomas Ferens Academy) was established in 2012. A Transfer Agreement determined the assets notionally transferred to the Academy based on an assessment of the ongoing scheme funding level of active members. The Academy says that this assessment has made it unjustly liable for the funding shortfall for all ex-employees of the predecessor school, even though they were never employed by the Academy. The Academy seeks a Determination that East Riding, the local Scheme administrator, acted in breach of the Transfer Agreement and has acted ultra vires in imposing a transfer of the deficit.

Summary of the Ombudsman's determination and reasons

The complaint should not be upheld. The decision reached by East Riding was one which a reasonable administering authority could have reached, and it was empowered to do so.

Next Steps

3.10 Officers are continuing to make every effort to engage with these academies to find a resolution to this impasse through dialogue. A meeting with the Step Academy Trust has been scheduled.

3.11 As all other avenues have been explored and no progress made in recovery the sums involved the Council has instructed lawyers. They are reviewing the documentation relating to this issue and will advise the Council as to the approach must likely to succeed in recovering this sum, plus the costs of taking this action, plus interest accrued on this debt.

3.12 The Committee are asked to note the content of this report and the actions described above. The Committee are asked to consider whether they believe the actions taken and those proposed are sufficient to discharge their responsibility under the Pensions Regulator's Guidance.

4 FINANCIAL CONSIDERATIONS

4.1 To date contributions to the value of £645,227 are owed to the Pension Fund. Interest due on the contributions for the period 2014/2015 amount to £2,850. Legal costs associated with recovering these sums are accruing. Interest on investing these sums foregone, if only deposited at bank, would be c. £16,000.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report.

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Acting Council Solicitor & Acting Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources Directorate, ext. 62552.

BACKGROUND DOCUMENTS: None

APPENDIX A: Extract from the Pensions Regulator Code on Funding Defined Benefits Pension Schemes

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Appendix A

Extract from the Pensions Regulator Code on Funding Defined Benefits Pension Schemes

Reporting material late payments to the regulator

169. Trustees must report a material late payment to the regulator and members within a reasonable period. A material late payment is where:

•contribution payments and other amounts under the schedule of contributions are not paid to the scheme by the due date(s), and

•there is ‘reasonable cause to believe’ that this failure is likely to be of material significance to the regulator in the exercise of its functions[96].

170. Having ‘reasonable cause to believe’ means more than an unsubstantiated suspicion. Trustees should make enquiries and use their judgment when deciding whether to report to the regulator. While they are not expected to undertake a full investigation to establish materiality or investigate whether an employer has committed fraudulent behaviour, the trustees should seek to enquire of the employer:

•the cause and circumstances of the payment failure, and

•what action has been taken by the employer as a result of the payment failure.

171. The trustees may choose to take an employer’s response to their enquiries at face value if they have no reason to believe it to be untrue or where their risk-based process indicates that there is a low risk of continuing payment failure. Where no response is received the trustees may infer that an employer is unwilling to pay the contributions due.

172. Below we set out the circumstances which are likely to be of material significance to the regulator. This list is for illustrative purposes only and is not exhaustive.

Material payment failures that need reporting

173 Trustees must report material late payments to the regulator and members within a reasonable period after the due date[97]. Circumstances which are likely to be material and which the trustees should report include:

•where trustees have reasonable cause to believe that the employer is not willing or able to pay the outstanding contributions

•where the trustees’ reminder and recovery process has been exhausted without response from the employer or without them having obtained the outstanding payment, in which event they may assume this indicates an employer’s unwillingness to pay

•where there is a payment failure involving possible dishonesty or a misuse of assets or contributions. For example, trustees may have concerns that the employer is retaining and using contributions to assist cashflow difficulties or where trustees have become aware that the employer has transferred contributions elsewhere other than to the scheme.

•where the information available to the trustees may indicate that the employer is knowingly concerned in the fraudulent evasion of the obligation to pay employee contributions

•where the trustees become aware that the employer does not have adequate procedures or systems in place to ensure the correct and timely payment of contributions due and the employer appears not to be taking adequate steps to remedy the situation, for example where there are repetitive and regular payment failures

•where there is an immediate risk to members' benefits (such as where pensions in payment are normally met by the employer's contribution), and

•in any event where contributions have been outstanding for ninety days from the due date (unless the payment failure was a one-off or infrequent administrative error, which is discovered after the ninety days and had already been corrected when discovered or is thereafter corrected as soon as reasonably practicable).

174. Trustees should not normally report to the regulator where one of the following circumstances applies:

•Where all the members of the scheme are directors of the employing company or family members of the directors

•Where a claim has been submitted to the Redundancy Payments Service of the Department of Business, Innovation and Skills or the Redundancy Payments Service of the Department for Employment and Learning for the outstanding contributions

•Where trustees have entered into a payment arrangement with the employer for the recovery of the outstanding contributions and the employer is paying in accordance with that arrangement

•Where there are infrequent one-off payment failures or administrative errors (resulting from, for example employees leaving the scheme or employment, new employees joining, or changes in salary not being notified promptly to the trustees), and those occasional failures or errors have been corrected within ninety days of the due date; and

•Where payments are made in excess of the contributions due under the schedule of contributions

Croydon Council

REPORT TO:	**PENSION COMMITTEE** **7 June 2016**
AGENDA ITEM:	**12**
SUBJECT:	**Governance Review: Local Pensions Board**
LEAD OFFICER:	**Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer)**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report informs the Pension Committee of the work and progress of the Local Pension Board in undertaking a governance review of the Pension Committee.	
FINANCIAL SUMMARY: Good governance leads to better decisions which should benefit the Council through better investment performance for the Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 The Committee is asked to:

1.2 Note the contents of the Governance Review;

1.3 Note progress against achieving the goals set out in the action plan;

1.4 Request that further progress against this action plan be reported to the Committee in six months.

2. EXECUTIVE SUMMARY

2.1 This report considers the findings of a review of the governance of the Pension Fund commissioned by the Croydon Pension Board.

3. DETAIL

3.1 At the first meeting of the Croydon Local Pension Board it was agreed that a priority agenda item should be a review of the Governance arrangements for the Pension Fund. Following an open procurement exercise the review was commissioned from Aon Hewitt.

3.2 The results of this review are detailed in Aon Hewitt's report which is attached. The brief for the review was to document and review the governance arrangements relating to the London Borough of Croydon Pension Scheme. The areas to be documented covered the role of the Pensions Committee and the effectiveness of its decision making; and the extent to which the Committee takes proper advice on those matters which require specialist input. The review additionally covered the suite of policy documents. The review adopted a methodology that sought to identify those areas where the administering authority fails to follow published guidance or best practice and to provide an assessment of the significance of any such failures.

3.3 The executive summary from the report is set out below.

Executive Summary

The purpose of this review is to ensure that the London Borough of Croydon, the Administering Authority for the Fund, is meeting its legal requirements in relation to the running of the Fund. In addition, the review highlights areas of good practice in relation to the governance of the Fund and also recommends any potential areas for improvement. The approach taken has been to compare the Administering Authority's current practices (at a high level) against the Aon Hewitt governance framework. The framework considers the following key areas:

Direction – What is the Fund trying to achieve?

- Legislation
- Strategies and Policies
-

Delivery – How does the Fund meet its aims?

- Business Planning
- Performance Monitoring
- Risk Management
-

Decisions – Does the Fund have effective decision making?

- Governance Structure
- Behaviour
- Pensions Skills and Knowledge

Our overall conclusion is that the governance of the Fund is of a good level in many areas, meets legal requirements on the whole, and in some areas the Administering Authority is demonstrating best practice. These include:

- having an administration strategy in place, which is an optional strategy but key to the delivery of services to the Fund's stakeholders;
- having good quality investment monitoring information;
- having clear evidence of appropriate debate and discussion by the Pension Committee when reviewing the investment strategy, and particularly the asset allocation;
- making good use of officers' and advisers' expertise to assist with decision making;
- evidence of good quality training for the Pension Committee;
- evidence of appropriate delegation to officers to allow the Pension Committee to focus on strategic matters.

We also identified some areas which could potentially be improved, and we therefore made some recommendations, including the following:

- developing a Fund business plan, to be approved and monitored by the Pension Committee;
- developing a Fund risk register, with summary data to be regularly fed back to the Pension Committee;
- expanding the terms of reference for the Pension Committee so that their responsibilities are more clearly articulated;
- formalising Fund strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clearer framework;
- undertaking a detailed review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes.

Next steps

We recommend that the Pension Board considers the recommendations set out in this report, and considers what should (and how it should) be fed back to the Pension Committee and officers of the Fund. We further recommend that an action plan is developed in relation to implementing these recommendations, in order that progress can be monitored on an ongoing basis.

3.4 The overall conclusion of the review is that the governance of the Fund is good in many areas, meets legal requirements on the whole and demonstrates best practice in several areas. The review identifies some areas which could potentially be improved.

3.5 Since work on commissioning this review commenced progress has been made against several of these targets.

- A business plan was presented to the Committee for adoption at the March

meeting (Minute A refers);
- The Committee, also at its March meeting, noted the current risk register specifically relating to the Pension Fund (Minute A refers);
- A document detailing the Pensions Committee’s terms of reference has been submitted to the Constitutional Review group and adopted by the Council;
- Within that document were specific references to the areas of Conflicts of Interest, Training and Risk Management.

3.6 A detailed review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes will be undertaken when resources are available to support the exercise.

4. RECOMMENDATIONS

4.1 After discussing the report in detail, the Board suggested three recommendations to the Pensions Committee. These are:

- To commend the report to the Committee;
- Note progress against achieving the goals set out in the action plan;
- Request that further progress against this action plan be reported to the Committee in six months..

5 FINANCIAL CONSIDERATIONS

5.1 There are no further financial considerations flowing from this report.

6. OTHER CONSIDERATIONS

6.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

7. COMMENTS OF THE SOLICITOR TO THE COUNCIL

7.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Acting Council Solicitor & Acting Monitoring Officer)

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Chief Executives department, ext. 62552.

BACKGROUND DOCUMENTS:	None
APPENDIX A:	Governance Review, London Borough of Croydon Pension Fund, Aon Hewitt, March 2016

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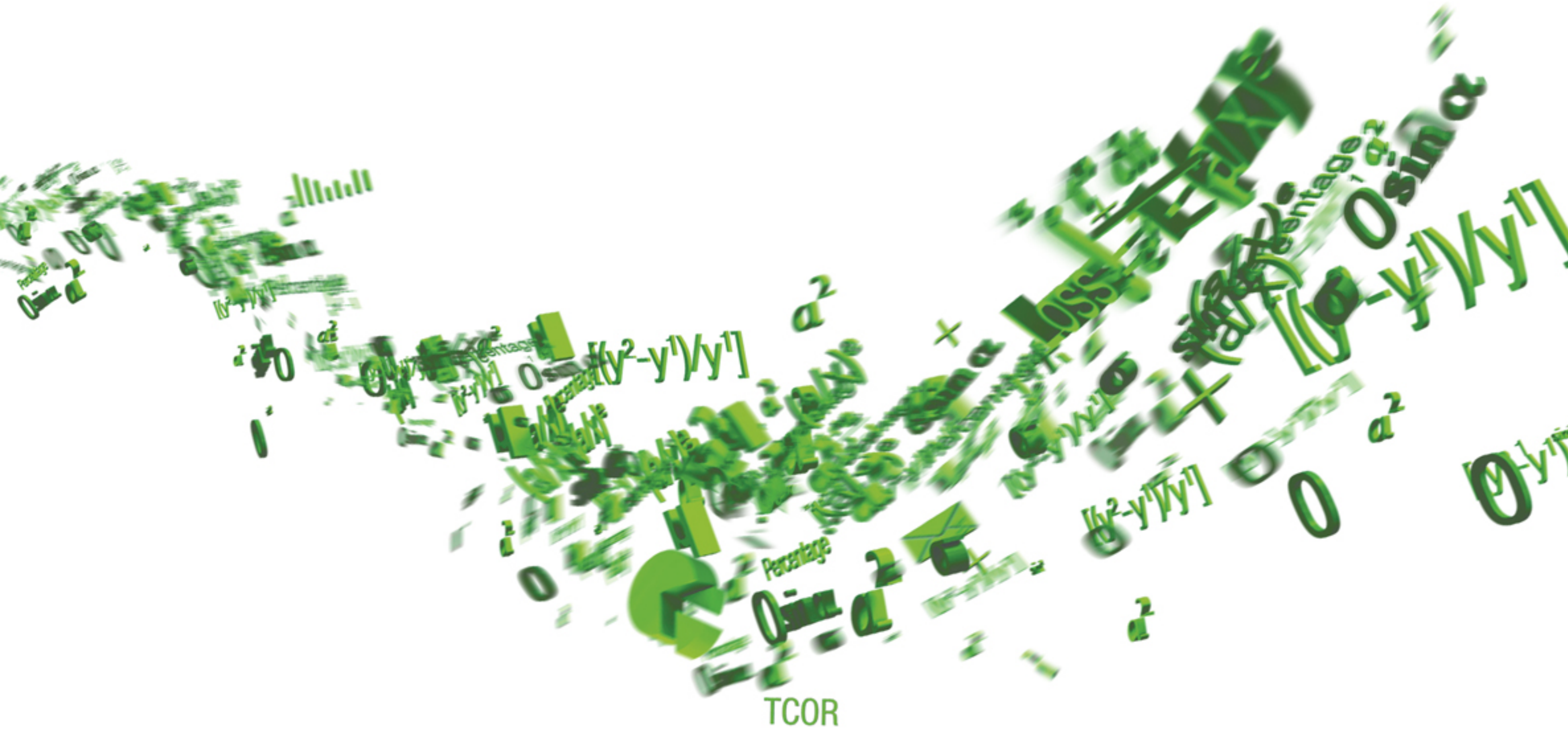

Governance Review

London Borough of Croydon Pension Fund

Prepared for	London Borough of Croydon Local Pension Board
Copy to	Nigel Cook, Head of Pensions & Treasury Freda Townsend, Senior Pensions Governance & Compliance Manager
Prepared by	Karen McWilliam, Head of Public Sector Benefits & Governance Consultancy
Date	29 March 2016

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Executive Summary

We have been asked by the London Borough of Croydon Local Pension Board to carry out a governance review in relation to the London Borough of Croydon Pension Fund ("the Fund"). The Fund is one of the 89 Funds who are part of the national Local Government Pension Scheme in England and Wales.

The purpose of this review is to ensure that the London Borough of Croydon, the Administering Authority for the Fund, is meeting its legal requirements in relation to the running of the Fund. In addition, the review highlights areas of good practice in relation to the governance of the Fund and also recommends any potential areas for improvement. The approach taken has been to compare the Administering Authority's current practices (at a high level) against the Aon Hewitt governance framework. The framework considers the following key areas:

Direction – What is the Fund trying to achieve?

- Legislation
- Strategies and Policies

Delivery – How does the Fund meet its aims?

- Business Planning
- Performance Monitoring
- Risk Management

Decisions – Does the Fund have effective decision making?

- Governance Structure
- Behaviour
- Pensions Skills and Knowledge

Our overall conclusion is that the governance of the Fund is of a good level in many areas, meets legal requirements on the whole, and in some areas the Administering Authority is demonstrating best practice. These include:

- having an administration strategy in place, which is an optional strategy but key to the delivery of services to the Fund's stakeholders
- having good quality investment monitoring information
- having clear evidence of appropriate debate and discussion by the Pension Committee when reviewing the investment strategy, and particularly the asset allocation
- making good use of officers and advisers' expertise to assist with decision making
- evidence of good quality training for the Pension Committee
- evidence of appropriate delegation to officers to allow the Pension Committee to focus on strategic matters.

We also identified some areas which could potentially be improved, and we therefore made some recommendations, including the following:

- developing a Fund business plan, to be approved and monitored by the Pension Committee
- developing a Fund risk register, with summary data to be regularly fed back to the Pension Committee
- expanding the terms of reference for the Pension Committee so that their responsibilities are more clearly articulated

- formalising Fund strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clearer framework
- undertaking a detailed review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes.

Next steps

We recommend that the Pension Board considers the recommendations set out in this report, and considers what should (and how it should) be fed back to the Pension Committee and officers of the Fund. We further recommend that an action plan is developed in relation to implementing these recommendations, in order that progress can be monitored on an ongoing basis.

Governance Review

London Borough of Croydon Pension Fund

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1 - Introduction

Purpose and scope

This paper sets out the findings of Aon Hewitt's governance review of the London Borough of Croydon Pension Fund, which was commissioned by the London Borough of Croydon Local Pension Board ("LPB"). The London Borough of Croydon (the "Administering Authority") is responsible for managing and administering the London Borough of Croydon Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme ("LGPS").

The purpose of this review is to ensure that the legal requirements in relation to the governance of the Fund are being adhered to, as well as to highlight areas of good practice in relation to the governance of the Fund, and also any recommended areas for improvement. We have compared the Administering Authority's practices against the Aon Hewitt governance framework which considers areas such as the role and effectiveness of the Pension Committee ("PC"), how the PC takes advice and the key documents and policies that govern the Fund. The Aon Hewitt governance framework is explained further in the next section of this report.

The review has been carried out a high level and did not involve any detailed investigation into services such as administration, communications, funding or investments. Accordingly it does not provide any technical comment in relation to any of these areas, including regarding the technical content of the related key governance documents. The review does include consideration, at a high level, of the legal requirements relating to governance, for example, the requirement to publish certain policies and strategies under Local Government Pension Scheme legislation. Though it includes some legal elements, these are presented by us in our capacity as pension consultants and not as legal experts, and as such nothing in this report should be considered as legal advice.

Further, the review does not specifically consider the establishment or operation of the LPB. However, there are some areas of overlap in relation to good practice for the PC and managers of the Fund that have relevance to the operation of the LPB and so some references to the LPB are included.

Research

The information upon which this review has been based has been gathered in a number of ways:

- Desk-top review of key reports, statements and policies governing the scheme and web information. The documents considered are listed in Appendix A.
- Effectiveness questionnaires were provided to all key officers and PC members (including scheme member representatives) to gather their views on areas such as the length of the meetings, how topics are presented, whether the members feel confident when making decisions, whether the members understand risk and strategy, and their general engagement in matters. The results of the questionnaire are summarised in Appendix B.
- My observations from attending a PC meeting in December 2015.
- Informal discussions with Nigel Cook and Freda Townsend, senior officers associated with the Fund, in relation to information found as part of the desktop review of current practices and procedures.

We would like to thank the officers and the members of the PC for their assistance throughout this review. It has been a pleasure working with them.

We hope the information contained within this report is useful to the Croydon LPB as well as to the London Borough of Croydon in considering how best to govern the Fund in the future. As you can see, the findings are positive in most places.

We look forward to answering any questions in relation to the report, and particularly any areas where we have highlighted that improvements could be made.

We recommend that an action plan is developed in relation to implementing these recommendations in order that progress can be monitored on an ongoing basis.

2 - Governance Framework

This section describes the best practice framework against which this review was conducted.

There are some key benefits from having effective governance in place, including:

- Robust risk management that can assist in preventing issues from arising, or at least reducing their impact should they arise
- Ensuring resources and time are appropriately focussed
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated for the Pension Committee (or equivalent).

At Aon Hewitt, we have a number of beliefs when it comes to achieving good governance including:

- Direction – having clear strategies and policies that also meet legislative requirements are fundamental
- Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management ensure effective and efficient delivery
- Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is key.

These beliefs are shown in the following diagram and described in more detail below.

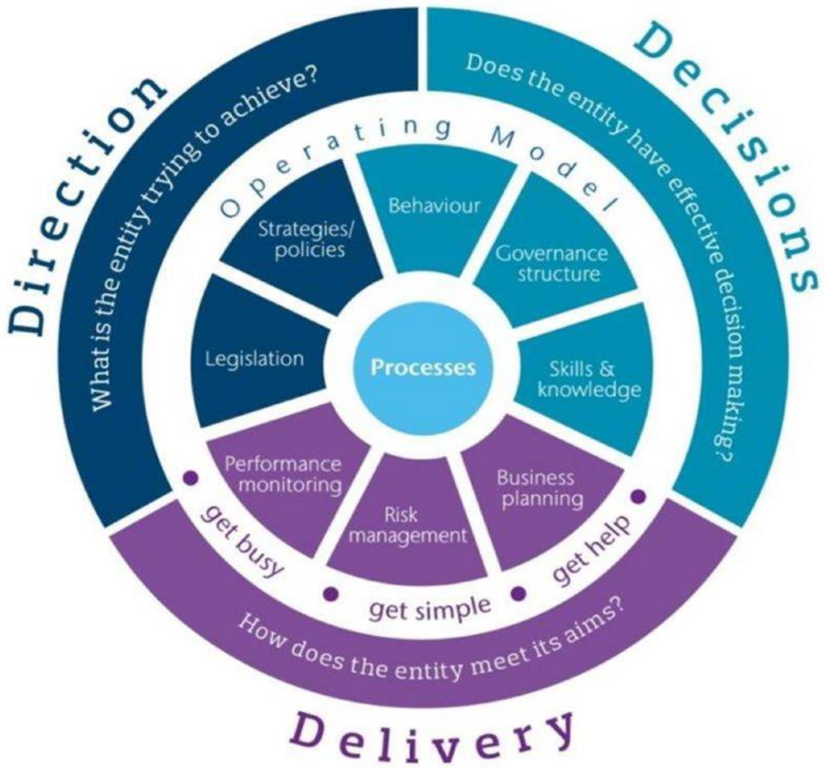


Table 1 – Aon Hewitt governance framework

Direction – What are you trying to achieve?	
Legislation and guidance	The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.
Strategies and policies	The Fund's strategies and policies should clearly set out the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies: ▪ should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself ▪ should be clearly articulated, to provide a framework within which those managing the Fund are able to operate ▪ should provide the focus for all future decisions and plans ▪ should be agreed by those responsible for governing the Fund.
Delivery – How do you meet your aims?	
Business Planning	Each Fund should have a business plan, setting out required activities in the forthcoming period. Those activities: ▪ should be driven by the Fund's strategies and policies ▪ will include activities driven by changes in overriding legislation.
Performance Measurement	Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should: ▪ illustrate whether the Fund's aims are being achieved ▪ cover the full range of key areas (e.g. investments, funding, governance, communications and administration) ▪ illustrate whether the Fund's business plan is being achieved ▪ be updated in accordance with appropriate timescales ▪ be presented in a manner that is easy to follow and understandable to those governing the Fund ▪ assist in identifying changes to the Fund's business plan, strategies, polices and aims.
Risk Management	Effective risk management is critical to minimise the impact and/or probability of unfortunate events and to maximise the realisation of opportunities. It should be: ▪ aligned with the Fund's aims ▪ a key consideration in decision making ▪ systematic or structured ▪ an integral part of the Administering Authority's processes and procedures on a daily basis.

Decisions – Do you have effective decision making?	
Governance structure	There is no one 'correct' governance structure. The Administering Authority's structure should: ▪ have clear terms of reference ▪ have a clearly documented scheme of delegation ▪ allow decision making at the appropriate level ▪ allow quick decision making where appropriate ▪ include appropriate representation from stakeholders ▪ involve well-presented information/reports ▪ allow sufficient time for discussion where necessary ▪ have good quality (committee) administration (e.g. issuing papers in good time) ▪ involve a process for managing conflicts ▪ provide transparency to stakeholders where appropriate.
Behaviour	A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should: ▪ have a high level of attendance at meetings ▪ demonstrate integrity in relation to their Fund role ▪ be engaged and provide appropriate challenge ▪ be accountable for the decisions made ▪ highlight any potential conflicts they may have ▪ for a Chairperson, manage the meetings fairly without any bias to individuals or self ▪ prepare adequately for meetings.
Skills and knowledge	A critical element is the need for those managing the Fund to have the appropriate level of knowledge and skills. Administering Authorities should: ▪ clearly articulate the knowledge and skills requirements in a Fund policy ▪ provide ongoing training in an effective and suitable manner to meet those requirements ▪ regularly review whether knowledge aspirations are being met ▪ ensure they rely appropriately on officers and advisers to provide expert knowledge.

Throughout this report we have included comments and facts which we hope are useful to the Administering Authority, including the LPB, in highlighting areas of good practice but also identifying areas for potential improvement. To provide some greater clarity on the intention of our comments, we have included graphics to illustrate whether they are:

- positive – meets legal requirements, national guidance and good practice.
- negative – requires improvement as it does not meet legal requirements or practices we consider key to good governance.
- neutral – meets legal practice, in the main, but could be improved to meet good practice or national guidance.

3 - Direction – What are you trying to achieve?

In this section, we consider whether the Fund has clear strategies and policies which meet the following requirements:

- *The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.*
- *The Fund's strategies and policies should clearly set out the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies:*
  - *should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself*
  - *should be clearly articulated, to provide a framework within which those managing the Fund are able to operate*
  - *should provide the focus for all future decisions and plans*
  - *should be agreed by those responsible for governing the Fund.*

In the table that follows, we summarise the key policies and strategies which we would expect to be in place for a well governed LGPS Fund, considering both legal requirements and best practice. Note that we have not considered the principles or methodology within these documents, given that this review is focussed on governance matters and not, for example, on the quality of actuarial or investment matters.

We have indicated in the table whether the documents are;

- legally required under the LGPS, or
- expected in accordance with CIPFA, LGPS Scheme Advisory Board ("SAB") or The Pensions Regulator's ("TPR") Guidance or Codes (many of which have some element of statutory backing),

and we then consider whether they are currently in place for the Fund and whether they meet these legal requirements or any requirements laid out in Guidance or Codes.

We also consider the quality and structure of these policies and strategies. For example, it is important that the PC is fully engaged in the development of all strategies and policies, whilst receiving appropriate advice and expertise from the officers and advisers of the Fund. It must therefore be clear that strategies and policies are part of PC business and are subject to ongoing review. We consider some other best practice elements later.

Table 2 – Strategies and policies – meeting key requirements

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
Funding Strategy Statement (FSS), including actuarial assessments	Yes – April 2014	▪ LGPS Regulations ▪ CIPFA FSS Guidance	☺ Meets requirements (but see next column regarding timescales) and also appears to follow the CIPFA guidance. It is noted that the Administering Authority will be reviewing the strategy in tandem with the 2016 actuarial valuation and, as part of that exercise, will be updating it in line with the updated CIPFA guidance which is expected soon.	☺ The FSS and actuarial valuation were considered by the PC. ☺ It is also clear that they took appropriate advice from the actuary. ☹ However, we would expect the FSS to be formally approved before the valuation is finalised (as the actuary needs to (legally) have regard to the current FSS in carrying out the valuation). The current FSS does not appear to have been approved until July 2014 whilst the valuation report was signed on 31 March 2014. It is also worth highlighting that the consultation with employers is stated as being in April/May 2014, which was after the date that employer rates had been certified in the valuation report. However, it does appear employers received their initial results (which would have been based on the key elements of the FSS) in late 2013, so it may have simply been the case of the formalisation of the strategy catching up with the practicalities of the approach used in the valuation.

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
Statement of Investment Principles (SIP), including: **- asset allocation review** **- policy on socially responsible investing** **- Myners Compliance Statement**	Yes- December 2015 (albeit the version on the Council's website has not been updated and is the 2012/13 version)	▪ LGPS Regulations ▪ Compliance Statement against CIPFA guidance on the Myners Principles in the LGPS	☺ Meets requirements including a well set out statement of compliance.	☺ It is clear that the latest review of the SIP was undertaken following a long process involving the PC. This included a number of discussions and challenges around the asset allocation review (training, workshops and a number of PC meetings). ☺ It involved ongoing advice from the investment consultant and officers. ☺ The SIP includes information relating to ESG and corporate governance matters including the use of PIRC and LAPFF.
Governance Policy and Compliance Statement	Yes – 2015 (no month shown but considered with annual report in September 2015) We note that the version on the Council's website has not been updated and is the 2014 version.	▪ LGPS Regulations ▪ Compliance Statement against Secretary of State guidance	☺ The Governance Compliance Statement provides the information that is required by the Local Government Pension Scheme Regulations 2013. 😐 However, it does not clearly state the extent to which it complies with each of the points in the Secretary of State's Statutory Guidance. We would expect the key elements outlined in that guidance to be explicitly quoted together with a note setting out whether the Fund complies with each element.	😐 It does not appear that the PC was specifically asked to approve this document (it was part of the annual report and no changes were specifically highlighted). We would recommend this being clear in the future.
Communications Policy	Yes – September 2014	▪ LGPS Regulations	☺ Meets all requirements.	😐 It does not appear that the PC was specifically asked to approve this document (it was part of the annual report and no changes were specifically highlighted).

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
Administering Authority Discretionary Policy	No (albeit the employing authority's policy is available on the website)	▪ LGPS Regulations – basic element only	☹ No policy has been made. Note the legally required element is just in relation to waiving of reductions for ceased employers, and therefore this is not a major issue but should be rectified.	😐 There are a range of discretionary provisions in the LGPS regulations, such as the charging of interest on late contributions or how to determine who should receive a death grant. It is best practice to have a fuller policy which allows discretions to be approved by the PC or, given its focus on low risk matters, by officers if delegated powers are provided. It should, however, be worded appropriately to ensure that it does not fetter future discretion in relation to these powers.
Administration Strategy	Yes – January 2016	▪ LGPS Regulations, (as an optional strategy)	☺ Meets all requirements.	☺ This was considered and approved at the December 2015 PC.
Risk Management Policy & Strategy	No	▪ CIPFA Guidance	😐 Not in place.	N/A
Annual report and accounts	Yes – 2014/2015	▪ LGPS Regulations ▪ CIPFA Guidance "Preparing the Annual Report" ▪ CIPFA accounting guidance	☺ Meets all LGPS Regulatory requirements. 😐 There appear to be some elements of the CIPFA annual report guidance that are not included in full, for example, administration data quality and a statement of compliance with the CIPFA knowledge and skills code of practice. ☺ Due to the detailed nature of CIPFA's accounting guidance we have not considered this. However, the audit findings were reported to the September 2015 PC.	☺ This was considered and approved at the September 2015 PC, including the associated audit report.

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
Knowledge and Skills/Training Policy	Yes: ▪ LPB July 2015 ▪ PC 2014 ▪ PC 2010 – unable to verify	▪ CIPFA & SAB ▪ TPR Code of Practice	😐 It appears that all key elements are considered in relation to the LPB (SAB and TPR), but we were unable to verify this in relation to the wider requirements in line with the CIPFA guidance. Although some information is contained within the Fund's Training Log, we were advised that the original decisions were made at a PC meeting in 2010 and those papers are no longer publically available. We would therefore recommend that a single Fund Knowledge/Training Policy is created, standardising the approach for all Fund stakeholders in accordance with the SAB and CIPFA requirements and that this is formally approved and adopted by the PC and LPB. When this combined document is created, we would recommend that this clearly states the individual responsible for ensuring that the Policy is implemented (as is recommended). This will be a useful reminder for relevant stakeholders as to who to contact if they feel they require further training.	😐 We were advised that the original decision was made at a PC meeting in 2010 which is clearly good practice but we observe that this decision is now nearly 6 years old, and best practice is that key policies should be regularly refreshed

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
Conflicts of Interest Policy	Yes: • LPB July 2015	▪ SAB Required for LPB only	☺ The Conflicts of Interest Policy for the LPB appears to incorporate the key elements as expected.	☺ Although not explicit in any legislation or guidance, it would be good practice to have a wider Fund Conflicts of Interest Policy applying to all stakeholders, and this is mentioned as part of the CIPFA annual report guidance. This should highlight differences between the Council's requirements in relation to declarations for elected members and officers as well as ensuring other parties (observers and advisers) are fully aware of expectations.
Breaches of the Law Procedure	Yes: • LPB July 2015	▪ Pensions Act 2004 ▪ TPR Code of Practice	☺ The Breaches Procedure that has been put in place appears to be focussed on LPB members. We recommend that changes are made to make it clear that it equally applies to all persons who are required to report material breaches and then this requirement (and procedure) should be communicated to all such persons.	☺ We also recommend that the Procedure is clearer in relation to ongoing monitoring of breaches with the PC and LPB, whether the breach is materially significant, and hence reportable, or not.

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
Treasury/Cash Management	No	▪ LGPS Regulations	☹ Not in place. Regulation 11 of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 requires each administering authority to have an investment policy outlining where any fund money that is not needed immediately is invested. Whilst there is a Council wide strategy, the pension fund uses a separate bank account which is why a separate policy is required.	
Employer (admission / cessation / bulk transfer) Policy	No	▪ None- good practice only	N/A	😐 Although not legally required, many administering authorities have now put these policies in place. They provide greater detail and expand on some of the areas in the FSS, such as how bulk transfers will normally be calculated and arranged, how new employers are admitted to the Fund etc. It can be a useful reference for employers in the Fund to help them understand their obligations and we would therefore recommend the Fund considers whether it may be appropriate to develop such a policy.

😐 It is worth highlighting that the results of the questionnaire that was completed by most of the PC members and officers, show that a reasonable proportion of the PC do not believe there are clear objectives for the Fund in relation to administration, communications and, to a lesser degree, governance. This highlights that, even though there are strategies or policies in place covering most of these areas, there could be more time spent at PC meetings considering non-investment matters. This is considered further later in this report.

As a general principle we would also recommend that any strategy or policy document should include the following elements in addition to the main contents/purpose of the document:

- Introduction including any relevant legislation and guidance
- The Fund's aims / objectives in this area
- What measurement / monitoring will be carried out in relation to those aims / objectives
- The key risks relating to the strategy and how they are being managed / monitored
- Who was consulted on the drafting of the strategy / policy
- When / how it was approved
- The effective date of the strategy / policy
- When it will next be reviewed
- The roles and responsibilities of the key parties responsible for delivering the strategy (e.g. Pension Fund Committee, officers, fund managers, advisers etc.).

In addition, we recommend that the latest version of all of these key documents is made available on the Fund's website.

We show in the following tables whether or not these elements are contained in the Fund's key documents, where we consider them appropriate.

Table 3a – Strategies and policies – document structure

Strategy / Policy Elements	FSS	SIP	Governance	Commun-ications	Discretion-ary	Administra-tion
Introduction including any relevant legislation and guidance	Yes	Yes	Yes	Yes	No policy in place	Yes
The Fund's aims / objectives	Yes	Yes	No	Yes – very high level	N/A	High level and not explicit
Measurement / monitoring requirements	Yes (part of risks)	Yes	No	No	N/A	Yes – not clear who monitors though
Key risks and how they are being managed / monitored	Yes	Yes	No	No	N/A	No
Who was consulted	Yes	No	No	No	N/A	Yes
When / how it was approved	Not when	Yes	No	No	N/A	No
Effective date	Yes	No	No	Not clear	N/A	Yes
When it will next be reviewed	Yes	Yes	No	No	N/A	Yes
The roles and responsibilities of the key parties	Yes	Could be clearer	Partial	Yes	N/A	Yes
On website	Yes	Yes (old version)	Yes (old version)	Yes	N/A	Yes

Table 3b – Strategies and policies – document structure – continued

Strategy / Policy Elements	Risk	Training*	Conflicts*	Breaches*	Treasury Manage-ment	Employer
Introduction including any relevant legislation and guidance	No policy in place	Yes	Yes	Yes	No policy in place	No policy in place
The Fund's aims / objectives	N/A	Yes	Not explicitly	Not explicitly	N/A	N/A
Measurement / monitoring requirements	N/A	Yes	Yes	No	N/A	N/A
Key risks and how they are being managed / monitored	N/A	No	No	No	N/A	N/A
Who was consulted on	N/A	No	No	No	N/A	N/A
When / how it was approved	N/A	No	No	No	N/A	N/A
Effective date	N/A	No	No	No	N/A	N/A
When it will next be reviewed	N/A	No	No	No	N/A	N/A
The roles and responsibilities of the key parties	N/A	Not fully	Not fully	Not fully	N/A	N/A
On website	N/A	Yes	Yes	Yes	N/A	N/A

*Analysis based on LPB policies that are in place. No wider Fund policy available to analyse.

☺ As you can see from the tables above, many of the policies follow good practice by incorporating these key elements. Further, every policy that exists is available on the Fund's website (albeit two need to be updated to the most recent version). We would recommend the Administering Authority develops within a business plan (explained later) and the PC's forward plan a commitment to ensure that all policies are subject to review at least every three years and, on the next review of each policy, that the structure of the policy is reviewed to ensure all the key elements identified above are incorporated.

😐Adherence to The Pensions Regulator Code of Practice

In addition to the LGPS regulations, CIPFA and SAB guidance, there are a number of key requirements relating to the management and operations of public service pensions schemes which are outlined in TPR's Code of Practice Number 14 - Governance and administration of public service pension schemes ("TPR's Code of Practice"). Many of the elements in the guidance relate to legislative requirements, mainly under the Public Service Pensions Act 2013 or the Pensions Act 2004. The Code of Practice covers the following areas and it can be seen that there is also overlap with some of the policies and strategies mentioned previously in this section.

- Knowledge and understanding of LPB members
- Conflicts of interest and representation
- Publishing information about schemes
- Internal controls
- Scheme record-keeping
- Maintaining contributions
- Providing information to member
- Internal dispute resolution
- Reporting breaches of the law

As a matter of best practice, we would expect all Administering Authorities to carry out a regular review of their approach against:

- the legal requirements underpinning the TPR Code of Practice, with a view to ensuring that these are being adhered to, and
- the guidance contained within the code, to consider whether the guidance should be adhered to or an alternative and justifiable approach should be taken.

This will also be an area of particular interest to LPBs as it is part of their statutory responsibility to assist in ensuring compliance with the TPR's Code of Practice.

The Pension Regulator carried out a survey of public sector schemes' compliance with the Code in the autumn of 2015, and has stated that it expects all schemes to have assessed themselves against the law and its code of practice.

Given the detailed requirements in TPR's Code of Practice, we have not considered whether the Croydon Pension Fund is compliant with the requirements. Instead we have tried to identify whether there is evidence of a check having been carried out against the legal and best practice elements of the Code. Unfortunately this does not appear to be the case, but we are aware that the officers of the Administering Authority do intend to carry this out in due course. We would recommend this is carried out as soon as possible, in particular to identify whether all legal requirements are being met.

Although this check has not been carried out, it is worth highlighting that, as part of this review, we have recognised a number of areas that demonstrate compliance with the TPR's Code of Practice including the LPB's Conflicts of Interest Policy and Training Policy.

4 - Delivery – How do you meet your aims?

In this section we consider whether the Fund:

- *has a business plan in place*
- *has an appropriate governance structure*
- *has people with the appropriate level of knowledge and skills*
- *has people with appropriate behaviours needed to make the governance effective.*

Business Planning

A Fund's business plan should set out all planned activities in the forthcoming period. Those activities:

- should be driven by objectives of the Fund's strategies and policies
- will include activities driven by changes in overriding legislation.

It is good practice for Funds to have a clear business plan. The LGPS Myners Principles published by CIPFA explicitly refer to this as follows:

"The CFO should ensure that a medium term business plan is created for the pension fund, which should include the major milestones and issues to be considered by the committee. The business plan should contain financial estimates for the investment and administration of the fund, and include appropriate provision for training. Key targets and the method of measurement should be stated, and the plan should be submitted to the committee for consideration.

The business plan should review the level of internal and external resources the committee requires to carry out its functions effectively and contain recommended actions to put right any deficiencies or to anticipate changing requirements in the future."

There is no explicit business plan for the London Borough of Croydon Pension Fund. However, some elements that would make up a business plan are undertaken, including:

- A forward plan of PC business
- Agreement of key areas of focus as part of officers' individual annual reviews
- A training plan

There is also clear evidence of key tasks being carried out at appropriate intervals, for example the periodical review of key strategies as part of the preparation of the annual report and accounts.

The current practice however could be improved and made more transparent with the development of a central business plan incorporating or summarising all of these elements in a single place of reference. Some of the key benefits of this would be:

- Clearer visibility and agreement of key tasks, which would in turn make it easier to ensure those tasks are in line with the agreed strategic direction of the Fund
- Ensuring the PC is in agreement with the areas being focussed on/planned for, and accordingly with where resources are being focussed, as well as assisting in highlighting any resourcing challenges in advance
- Formal agreement to the Fund's budgets for future years by the PC
- A longer term view (we would recommend a three year rolling plan) where recurring elements could be captured, such as review of providers (e.g. AVCs, investment consultant), which would provide PC members with the opportunity to highlight anything they think is currently missing

- Ensuring the PC is aware of and in agreement with future plans across the full spectrum of the Fund's activities (i.e. investment, funding, governance, administration and communications).

We recommend incorporating tasks into a business plan relating to all of the following areas, all of which should be considered in the context of the agreed strategies/aims of the Fund:

- legislation (e.g. valuation, implementation of a forthcoming legislative changes),
- performance monitoring (e.g. the review of an area of a service that is failing to meet the agreed service standard)
- standard practice (e.g. review of advisers, review of strategies and policies),
- the evolving environment (e.g. new investment vehicles, a greater focus on information technology efficiencies)
- risk management (e.g. reviewing staffing structure due to increasing manpower risk)

It will be important for the PC to recognise that that any business plan may need to be revised mid-year, for example, if new legislation is passed or a particular task is deferred for a particular reason. Further, we recommend that the PC is also provided with regular updates on progress against the agreed business plan, which can be presented at a high level, and which in turn will help them to consider if it does need to be reviewed or realigned. This lack of focus on business planning is also highlighted within the results of the questionnaire. Over half of those responding felt that they do not get appropriately involved in agreeing the Fund's business plan and are not kept up to date with progress against the plan.

Performance Measurement

Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should:

- illustrate whether the Fund's aims are being achieved
- cover the full range of key areas (e.g. investments, funding, governance, communications and administration)
- illustrate whether the Fund's business plan is being achieved
- be updated in accordance with appropriate timescales
- be presented in a manner that is easy to follow and understandable to those governing the Fund
- assist in identifying potential changes to the Fund's business plan, strategies, polices and aims.

At each PC meeting, a quarterly update report is presented including the following information:

- Total performance of the Fund's assets including against benchmark
- Individual manager performance and monitoring (e.g. fund manager discussions and visits)
- Market review and investment outlook

However, although investments are covered in detail, we have observed that reports to PC lack information in relation to monitoring of other areas such as funding, governance, administration and communication matters. As a result, the PC is not provided with sufficient information to allow them to identify successes or issues in the running of the Fund, such as delays in paying or notifying scheme benefits, resourcing issues or concerns with employer covenant arrangements.

Basic information is provided in relation to employer changes in the Fund and, as mentioned previously, training logs. However, we recommend that the Administering Authority reviews its wider monitoring arrangements to ensure all of the Fund's aims and objectives as articulated in the key strategies and policies are subject to ongoing monitoring at appropriate timescales. We would expect this to include areas such as:

- regular reporting of turnaround times and more qualitative measures in relation to the performance targets set out in the administration strategy
- more regular consideration of funding matters, such as funding levels, employer covenants and cash-flows, specifically focussed on the key objectives of the funding strategy statement

We would also expect ongoing monitoring reports to share information such as:

- identified breaches of the law (both those reported to TPR and those simply recorded by the Fund)
- monitoring progress against the Fund's budget including expected income and expenditure
- monitoring of key tasks included within the annual business plan.

It is possible to contain much of this information within a summary scorecard or another simple method of indicating at a high level any areas that are not meeting the requirements (but equally allowing PC members to easily identify how well the Fund is also doing). This could perhaps be as simple as an initial summary page within the appropriate report, which would assist in ensuring information is kept succinct where appropriate.

The lack of time spent on non-investment related matters is also highlighted within the responses to the questionnaires, with:

- the majority of those responding saying that there is not enough time spent on these or that more time could be spent on these.
- nearly half of those responding said that there were key areas that were not being covered at PC meetings, which also ties in with our observation that more focus is required on monitoring areas such as administration
- around half saying that they are not given sufficient information for them to know whether administration and communications objectives are being achieved, and
- over half of those responding saying that the administration, communications and governance strategies and policies were not brought to Committee for review sufficiently often.

😐 Risk Management

Effective risk management is critical in minimising the impact and/or probability of undesirable events and in maximising the realisation of opportunities. Risk Management should be:

- aligned with the Fund's aims
- a key consideration in decision making
- systematic or structured
- an integral part of the Administering Authority's processes and procedures on a daily basis.

Although much of the focus of PC papers is around the key risks to the Fund from an asset management perspective, the Administering Authority does not have a risk management policy or a Fund specific risk register with appropriately documented internal controls. This is a key element of the day to day management of the Fund and is expected to be in place according to:

- CIPFA's guidance to managing risk in the LGPS (which particularly highlights that there is a great deal more to risk management in the LGPS than simply investment risk)
- CIPFA's Myners LGPS guidance
- The Pension Regulator's Code of Practice.

We recommend that the Administering Authority ensures a risk management policy is created for the Fund, and appropriate risk management procedures, including a risk register, are put in place with regular updates to the PC, perhaps at a summary level focussing on the high level risks.

It is, however, worth highlighting that the responses to the questionnaire do appear to show that most PC members and officers feel they understand the key risks to the Fund, albeit there is some room for improvement here.

5 - Decisions – Do you have effective decision making?

In this section we consider whether the Fund:

- *has an appropriate governance structure*
- *has people with the appropriate level of knowledge and skills*
- *has people with appropriate behaviours needed to make the governance effective.*

Appropriate governance structure

There is no one 'correct' governance structure. The Administering Authority's structure should:

- have clear terms of reference
- have a clearly documented scheme of delegation
- allow decision making at the appropriate level
- allow quick decision making where appropriate
- include appropriate representation from stakeholders
- involve well-presented information/reports
- allow sufficient time for discussion where necessary
- have good quality (committee) administration (e.g. issuing papers in good time)
- involve a process for managing conflicts
- provide transparency to stakeholders where appropriate.

These elements are considered in this section. For information, Appendix B includes information that has been extracted from the Council's Constitution relating to key elements of management and delegation in relation to the Fund.

The function of the PC

The functions (terms or reference) for the PC contained in Part 2 are stated to be:

"Management of the Council's Pension Fund, including matters related to employer liability".

This description of the role of the Pension Committee appears particularly brief, both compared to descriptions for other Committees within the Council, and compared to other Pension Committees in England and Wales. Although we would not recommend including too much detail, we believe it is important to be clear about what is expected to be carried out by the Committee. This could be resolved by including further elements such as setting and monitoring the administration strategy and agreeing the Fund's annual business plan.

The function of the LPB

Although not explicitly part of this review, we also note that the responsibilities of the LPB are stated to be:

"The Board secures the effective and efficient governance and administration of the Croydon Council Pension Fund"

We observe that this is not consistent with the LGPS regulations where the role of the LPB is included in the following provision:

"Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme, and

(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme."

In particular we would stress the legislative reference to "assist" the administering authority, rather than being fully responsible for "securing" this. Although the role of the LPB in its Procedure Rules does articulate this wider role, we recommend Part 3 of the Constitution is updated to be consistent to avoid any confusion around where responsibility lies. Further, these Procedure Rules are not currently published as part of the Constitution, which we expect to be an administrative oversight which should be corrected.

Clearly documented Scheme of Delegation

As with all Councils, the Constitution includes elements such as Financial regulations and Tender and contract regulations. There does not seem to be any specific mention in relation to pension fund matters and therefore we would assume the elements contained within those apply equally to the pension fund management - for example, the Chief Financial Officer is responsible for selecting the Council's accounting procedures, records and policies and for monitoring and controlling expenditure against budget allocations.

We acknowledge that on a day to day basis many of the operational aspects within these procedure rules will be delegated to officers such as the Head of Pensions & Treasury or the Senior Pensions Governance & Compliance Manager. As this is a high level review, we have not considered this onward delegation, how it is formally delegated or any financial controls relating to it.

Appropriate representation

It is good practice for Administering Authorities to allow some representation for scheme members and employers. The Administering Authority provides this in a number of ways:

- The PC is made up of:
  - Eight London Borough of Croydon Councillors – with voting rights
  - Three (one staff side and two pensioner side) co-opted members – with no voting rights
- The LPB is made up of:
  - Independent non-voting Chair
  - Three employer representatives (one a London Borough of Croydon Councillor)
  - Three employee representatives

We consider that the involvement of the wide range of stakeholders across these two bodies provides good opportunity for them to feed into the decision making process. It is unusual not to have an employer representative (i.e. a representative of employers other than the Council) as a co-opted member of the PC, and indeed this would not meet the best practice included within the Secretary of State's Governance guidance. At the meeting in December 2015 it was suggested that the PC should include a co-opted representative of academies and we understand this will be considered further by the Council.

Appropriate level of decision making and quick decision making where appropriate

It is important that decisions are made at the appropriate level and that the governance structure is flexible enough to ensure that decisions can be made in a timely manner. It is our understanding that all decisions are made by the PC, but I did observe reference to responsibilities to delegating manager implementation to officers. However, the progress in relation to these responsibilities was clearly to be reported back to the PC.

Given the time at PC meetings is relatively short, I think this demonstrates good practice in that the PC recognises their responsibility to own strategic matters such as the asset allocation, but that matters that can add less value, such as manager selection, are delegated subject to appropriate oversight. So, on the face of it, the PC has the flexibility to operate appropriately and does make use of that flexibility. However, I did observe at the December 2015 PC meeting that there was some confusion around exactly what was delegated to officers. It is important that all PC members are completely clear about what is being agreed and that this is documented appropriately. Greater detail in the terms of reference might help determine any areas that could be delegated officially on a more permanent basis subject to ongoing monitoring.

Well-presented information/reports

Information and reports are provided to the PC by officers and various advisers (including the investment consultant). Our view is the information and reports are well constructed and presented. In addition when observing the PC in December 2015, we were pleased to see a high level of interaction between PC members, officers and advisers including:

- Officers introducing reports in a clear and concise manner, and taking longer reports in a logical step by step manner,
- The Assistant Chief Executive and S151 Officer, and Head of Pensions and Treasury delegating questions to other officers who are more specialist in the subject matter at hand.

This view is backed up by the findings of the questionnaire, with the majority of responses saying that all officers and advisers were understandable and that the information presented within the reports or with reports was "about right". However, there were a number of respondents who suggested there could be more PowerPoint style slides (including printed) used to introduce a report. From our experience, we recognise that a highly complicated matter can benefit from a small amount of time dedicated to it in this way.

It is also worth highlighting that the results of the questionnaire show that more than half of those responding said that they sometimes did not feel that they received sufficient points of view when provided with information. Further, nearly half said that sometimes they feel that the information they receive does not properly equip them to make a decision. It is difficult for us to comment on these points based on this high level analysis, but clearly they are matters that should be kept under review. Ongoing training and access to officers and advisers will be key to reducing any concerns including clarity on other options within reports. This might also be a reason to review the need for an Independent Adviser (mentioned elsewhere in this report).

Sufficient time for discussion

Based on the meeting I observed, there appeared to be appropriate time to discuss all the items on the agenda in an appropriate level of detail. However, we would recommend that this are remains under observation, particularly given our earlier comments on the breadth of information coming to the PC.

Good quality (committee) administration

In common with most local authorities, Croydon appear to generally be very good at administration with:

- all reports being issued at least five working days in advance of meetings,
- minutes signed off as a true record by the PC,

- well laid out reports with clear recommendations, and
- each paper referring to the Corporate Priority/Policy Context which provides an opportunity to link the contents of the paper back to the specific objectives of the Fund's strategies, such as the Funding Strategy Statement or the Administration Strategy.

We do, however, highlight a minor area for consideration - each paper refers to the relevant Cabinet Member but, given this is a non-executive committee, we do not understand how this is relevant. Further, responses from the questionnaire highlight that the minutes could be more detailed in places, and particularly where PC members (including co-opted members) have asked questions or raised concerns.

It has also been highlighted in the questionnaire that there have been a number of changes in committee clerk in the past few years which has caused some difficulties. We would strongly encourage the Council to try to avoid change and we also recognise the benefit of having the same committee clerk for both the PC and LPB (as it is at the moment).

Some of the questionnaire responses highlight that the minutes are brief in places and do not always record key questions and discussions that take part during decision making. We agree that the minutes do appear quite brief, and recommend that they include more detail around the discussions and areas the PC (including co-opted members) have raised.

Managing conflicts of interest

Each London Borough of Croydon elected member and any co-opted member is required to complete a registration of interest which is a public document declaring disclosable pecuniary interests, and some non-pecuniary interests. A pecuniary interest is generally considered as an interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person. This would cover areas such as land ownership, involvement with businesses and gifts or hospitality.

There is a further requirement under the Code of Conduct for members to declare any such interest at the start of a Council meeting if it is not already on the register. Generally speaking, members cannot and should not participate in decisions in relation to which they have a pecuniary interest. These procedures are quite clear and helpful in matters such as consideration of fund investment vehicles.

However, there will be examples whereby a member does not have a clear pecuniary or non-pecuniary interest as defined by the Council's Code of Conduct, but instead has a personal or professional conflict of interest that needs to be managed appropriately. For example,

- Being a member of the LGPS
- Having separate responsibility for an employer who participates in the Fund

In this latter example, there may be circumstances where it is necessary for PC members (administering authority elected members) to balance their employing authority responsibilities (e.g. maintaining local service provision) against their administering authority responsibilities (e.g. ensuring appropriate payments by all employers into the Fund). This could potentially extend to political views whereby some councillors may have different views than other councillors from differing political parties, for example, in relation to investment in local infrastructure or environmental, social and governance (ESG) matters. Recent Queen's Counsel opinion and the Law Commission report conclude that ultimately PC members, and all those concerned with the management of the Fund, should remain focussed on the underlying fiduciary and public law responsibilities. This means that Fund assets should be invested in the best interests of members and beneficiaries (and, indeed, I was pleased to hear indirect reference to this by one of the PC members at the December 2015 meeting). The potential for interests that could conflict with Fund matters, and this ultimate responsibility, should always be recognised and managed appropriately. A Fund Conflicts of Interest Policy could ensure this point is clear to all involved. It is, however, worth highlighting that this would not necessarily require individuals to be removed from meetings and/or decision making.

Some of our observations in relation to the Fund are:

- The Council's Code of Conduct requirements in relation to disclosable pecuniary and some non-pecuniary interests are a useful starting point for managing conflicts. However, there are circumstances where other interests could have an impact on impartiality in the Fund's decision making
- At the December 2015 meeting, we were please to observe that the Chairman asked for all declarations not on the register to be disclosed
- We note that there is no registration of interest on the Council's website in relation to the co-opted members on the PC (which may or may not suggest declarations have not been completed).
- It is worth noting that, in the results of the Effectiveness Questionnaire, four individuals stated they had not received training on Conflicts of Interest.

Clearly there are some positive elements in relation to the existing arrangements and it was pleasing that I did not observe any particular matter which demonstrated a lack of understanding about potential conflicts at the meeting. However we believe this is an area that could be improved upon, particularly in relation to potential conflicts of interest that are Fund specific and would not therefore be highlighted through the Council's arrangements in the Code of Conduct. The CIPFA Guidance for LGPS Funds in Preparing the Annual Report refers to the information contained within the Fund's Governance Compliance Statement including their "policy and processes for managing any conflicts of interest". It is also a key area of interest for both the Scheme Advisory Board and in The Pension Regulator's Guidance, albeit more focussed on LPB members.

Clearly this is not a legal requirement but, as mentioned earlier in this report, we would encourage the Administering Authority to develop a Fund specific policy outlining how conflicts of interest will be managed and dealt with at a Fund level. This could include reference to

- the Council's Code of Conduct
- how it relates to co-optees and observers
- examples of Fund specific potential conflicts of interest
- how conflicts of interest (and potential conflicts of interest) will be managed
- guidance for officers and advisers of the Fund to also adhere to.

The existing policy for the LPB could be expanded to apply to the wider Fund management including the PC, and also expanded to cover the points above where they are not already included. We recommend that this policy is complemented by periodical training in relation to Fund specific conflicts of interest as well as being compulsory for new PC and LPB members as well as Fund officers.

☺ Transparency to Stakeholders

As with all public services, it is important that stakeholders have appropriate access to Fund information, including regarding the governance of the Fund. In this regard the Administering Authority's activities are appropriately driven by local authority legislation, for example:

- the requirement to provide public access to meetings (except for exempt items), and
- the requirement that all reports, agendas and minutes are to be published (except for exempt information).

In addition, the LGPS regulations require each Administering Authority to produce and publish an annual report and accounts providing key financial information, management information and strategies. This requirement is enhanced by the (non-statutory) CIPFA Guidance for LGPS Funds in Preparing the Annual Report.

Our observations are that the Administering Authority demonstrates compliance with all of these requirements as well as stakeholder involvement being enhanced through the PC and LPB membership.

Further the Administering Authority maintains an excellent website which includes the following information relating to the governance of the Fund:

- all of the Fund's key strategies and policies
- the Annual Report and Accounts
- links to PFC reports, agendas and minutes.

We note that generally there are few items that are considered exempt from the public at PC meetings, such as items related to manager monitoring and employer updates. We are observing less manager monitoring papers being exempt at PCs, and so recommend that the Council continues to review whether this is necessary. Any proposed change may require the Council to speak to any consultants preparing this information.

We acknowledge that there will be times when the information relating to employers could result in divulging the financial affairs of an authority. However, it was highlighted at the December 2015 meeting by a member of the PC that one of the employer items did not need to be exempt and we therefore recommend ongoing consideration of the need for items to be exempt or not.

Skills and knowledge

A critical element of good governance is the need for those managing the Fund to have the appropriate level of knowledge and skills. The current requirements relating to training of PC members and officers of LGPS Funds are included in the following documents:

- CIPFA Code of Practice on public sector pensions finance knowledge and skills
- CIPFA Knowledge and Skills Framework – Elected representatives and non-executives
- CIPFA Knowledge and Skills Framework - Officers

In addition, Scheme Advisory Board's Guidance and The Pensions Regulator's Code of Practice, (albeit focussed on LPB knowledge and skills legal requirements), highlight the need for the Administering Authority to have appropriate policies and procedures in place to ensure a high level of knowledge and skills.

Though adhering to the CIPFA documents is not statutory, they are considered good practice and there is increasing acceptance of the need for high levels of knowledge as well as increasing scrutiny of this by PC members and officers. The key elements of the CIPFA requirements are that Administering Authorities:

- clearly articulate the knowledge and skills requirements in a Fund policy
- provide ongoing training in an effective and suitable manner to meet those requirements
- regularly review whether knowledge aspirations are being met
- ensure that they rely appropriately on officers and advisers to provide expert knowledge.

These elements are considered in this section. Our focus within this section is on the requirements relating to PC members.

Before drilling down into the detail though, it is worth highlighting that the results of the questionnaire do show that most respondents consider their role on the PC to be difficult at times. This highlights the importance of providing good quality ongoing training.

Clearly articulated knowledge and skills requirements in a Fund policy

As mentioned in Section 3, although it appears that the Administering Authority has formally adopted the CIPFA Frameworks and Code, it does not have a Training Policy documented (other than that for the LPB and a document called a Training Policy which is more akin to a Training Log with a brief introduction). We therefore recommend that the Administering Authority considers implementing such a policy to set out its policy and approach to training, which could include the following:

- A statement regarding embracing the CIPFA Framework (or an alternative)
- How training will be provided
- Qualifications the Administering Authority will encourage (if relevant)
- Expectations in relation to training attendance (perhaps even to the degree that all PC members must attend at least 1 key conference per year)
- Specific requirements in relation to new members (e.g. the requirement to undertake induction training)
- How knowledge requirements will be regularly assessed and monitored
- An individual within the Administering Authority who is ultimately responsible for ensuring the policy is adhered to (CIPFA recommend this should be the Section 151 Officer's responsibility).

We recommend that all of the above points are considered separately for officers, PC members and LPB members, effectively amalgamating the existing LPB policy into this so there is one single Fund policy on training.

Providing ongoing training in an effective and suitable manner to meet those requirements

We believe it is important to provide a wide range of training opportunities to PC members via a range of different approaches. For example, in addition to ensuring that PC members are aware of all the key elements of managing the Fund, we believe it is important that they have the opportunity to learn about areas that the Administering Authority may not currently be focussed on. A key skill of a good PC member is to be able to identify where information is not provided in reports, and therefore to be able to ask questions relating to alternative options that are not under consideration (i.e. turning the unknown unknowns into known unknowns).

The Fund publishes a training log each year explaining how training is approached. Based on the training logs for 2013/14 and 2014/15, there appears to be a good number of training opportunities and also relatively good attendance at training events amongst full PC members and co-opted members. The training log would benefit from a key to describe the various symbols.

We note that, in common with many other LGPS Funds, the focus of the training requirements that are publicly available are on PC members, rather than officers. Clearly officers' skills need to be at quite a different level than PC members. We observe that officers regularly attend external events which we consider to be useful to maintaining appropriate knowledge, and we recommend that this is also clearly documented in a training log.

Regularly review whether knowledge aspirations are being met

The training log, as it stands, does not provide an overall assessment against the CIPFA knowledge and skills framework to allow one to understand whether PC members have had appropriate training in the required competencies. It is also not possible to determine, where members are expected to attend training but have failed to do so. We would recommend these points are considered as part of the implementation of the Training Policy.

It is also worth highlighting some of the findings from the questionnaires given to PC members and officers in relation to this area:

- The majority view amongst those that completed the questionnaire is that they believe they have received sufficient training
- However, when asked if the PC has the appropriate knowledge most said there were one or two areas where this is not the case and some said there were a number of areas where this is not the case
- It was acknowledged by some that changes in PC membership impact on the overall knowledge and skills of the PC (which is to be expected when long standing members are replaced by new members with little or no pensions knowledge)

Rely appropriately on officers and advisers to provide expert knowledge

Given very few PC members are pension professionals, it could be risky for PC members to make decisions on their own purely based on the training given to them. The Administering Authority provides a wide range of experts for the PC members to tap into; officers (multiple), consultants and, previously, an independent investment adviser, as well as also engaging with Fund Managers to utilise their expertise. We observed the input of the investment consultant at the December 2015 PC meeting, and also reports from the Fund actuary at that meeting, which we consider to be positive.

The questionnaire completed by PC members and officers shows that the majority think the information being provided by officers and advisers is of a high standard, albeit three out of five actual PC members highlighted that they could do with seeing the actuary more often and two out of four said they could do with seeing the investment consultant more often. This could be an indication of the need for greater assurance or of the desire for more time to be spent on certain funding or investment matters.

From observing we were extremely encouraged by how PC members engage with those experts (both officers and consultants) and are keen to hear their views.

Although I am not aware of the history of the removal of the role of independent adviser to the Fund, this was highlighted as an issue within some comments received in the questionnaire. An independent adviser can provide a wider range of expertise to give greater assurance to the PC on the decisions being made, particularly where there has been a large degree of change in the management of the Fund, such a significant changes in PC members, key officers and/or Investment Consultant. Should that occur, it may be worthwhile for the PC to reconsider whether this is a role they wish to reinstate through a robust appointment procedure. All advisers and consultants should also be subject to ongoing monitoring and to a further appointment/procurement process at the end of a fixed term contract.

Behaviour

A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should:

- have a high level of attendance at meetings
- demonstrate integrity in relation to their Fund role
- be engaged and provide appropriate challenge
- be accountable for the decisions made
- highlight any potential conflicts they may have
- for a Chairperson, manage the meetings fairly without any bias to individuals or self
- prepare adequately for meetings.

These elements are considered in this section. Much of the information derives from observations of the PC at the December 2015 meeting. It also captures particular themes from the Questionnaire completed by PC members and officers.

Attendance at Meetings

The PC meeting in December was well attended with all but one co-opted PC member present. The 2015 attendance record in the annual report and accounts also demonstrates strong ongoing attendance.

General Behaviour

This element can be easily aligned with the General Principles of Public Life which are adopted by the London Borough of Croydon as part of their members' Code of Conduct. These principles are:

1. Selflessness
2. Integrity
3. Objectivity
4. Accountability
5. Openness
6. Honesty and truthfulness
7. Leadership

and they also apply to co-opted members.

There is always a danger that decisions are made by PC without full and appropriate discussion, debate and challenge. Equally there is a risk that too much time can be spent on matters of little importance/value. From my observation at the PC meeting, I could recognise the above principles being applied by PC members and officers, and felt that generally the balance of discussion was good. Some specific observations are:

- Members demonstrated respect for officers and advisers asking questions and allowed appropriate time to hear their views, as well as on occasion acknowledging the workloads of officers
- Members were all engaged with all but one individual at some point asking questions or providing their views
- The range of questions being asked demonstrated the wish to ensure potential alternative options were also understood
- Members were keen to hear the views of all officers and advisers on specific matters
- All members appeared engaged throughout
- One member highlighted an area where he did not understand what was within the report and asked questions to gain appropriate understanding before agreeing the recommendation. It is a credit that the PC meetings take place in an atmosphere where this can be done.
- The Chairman demonstrated strong chairing skills, as the meeting did not feel rushed and we observed on a number of occasions the chairman ensuring there were no further questions before moving on.
- The Chairman was quite clear in ensuring the recommendations were agreed prior to moving onto the next agenda item.

The only areas we would wish to highlight as potential areas of concern are as follows:

- A number of comments from different individuals in the questionnaire highlighted that there appears to be some cross political party tension coming through as part of meetings, with 'point-scoring' highlighted as happening relatively frequently. I did also observe some elements of this at the December PC meeting, albeit I would say that final decisions made at that meeting were not, in my view, impacted by it. There were also concerns highlighted in the questionnaire about the amount of discussion at pre-meetings rather than during the open forum of the PC, giving a feeling that decisions are sometimes effectively made outside of the PC meetings. It is inevitable that views of individuals from the same political party are likely to be more aligned. However, comments coming through from the questionnaire highlight frustration from some PC members and officers. It is interesting to note that at least one elected member specifically noted that the PC should not be political. We would therefore encourage all PC members to be mindful of this, with a view to ensuring political views do not impact the effective flow of the PC.
- although it was not something I specifically observed, there does appear to be some concern, particularly by co-opted members, that their comments are not always taken on-board when decisions are made. It is hoped that the ongoing participation by the Chairman of the LPB can assist with ensuring that all stakeholders feel they have appropriate opportunity to be involved in discussions, whilst acknowledging that the final decisions do rest with the voting PC members.

Appendix A – Reference Material

This appendix lists the various documents that were considered as part of this Governance Review.

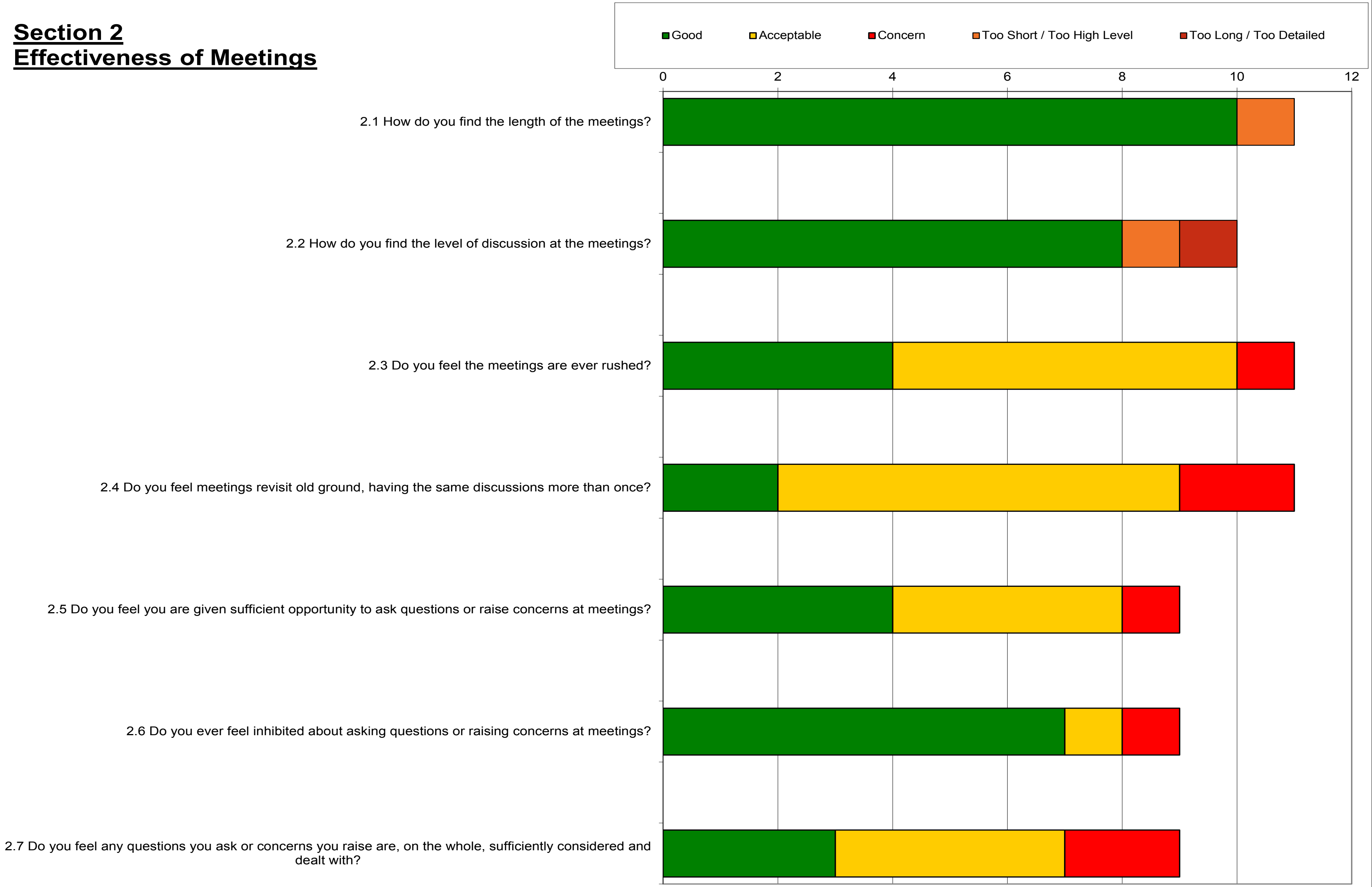
- Various Pension Committee and Local Pension Board meeting packs and minutes (focussing on the period from December 2014)
- The London Borough of Croydon's Constitution
- Administration Policy
- Annual Report 2014/15
- Communications Policy
- Funding Strategy Statement
- Governance Compliance Statement
- Statement of Investment Principles
- Valuation Report 2013
- Pension Committee Training Log
- LPB Terms of Reference and Policies (Breaches, Conflicts, Training)
- Statement of Investment Principles

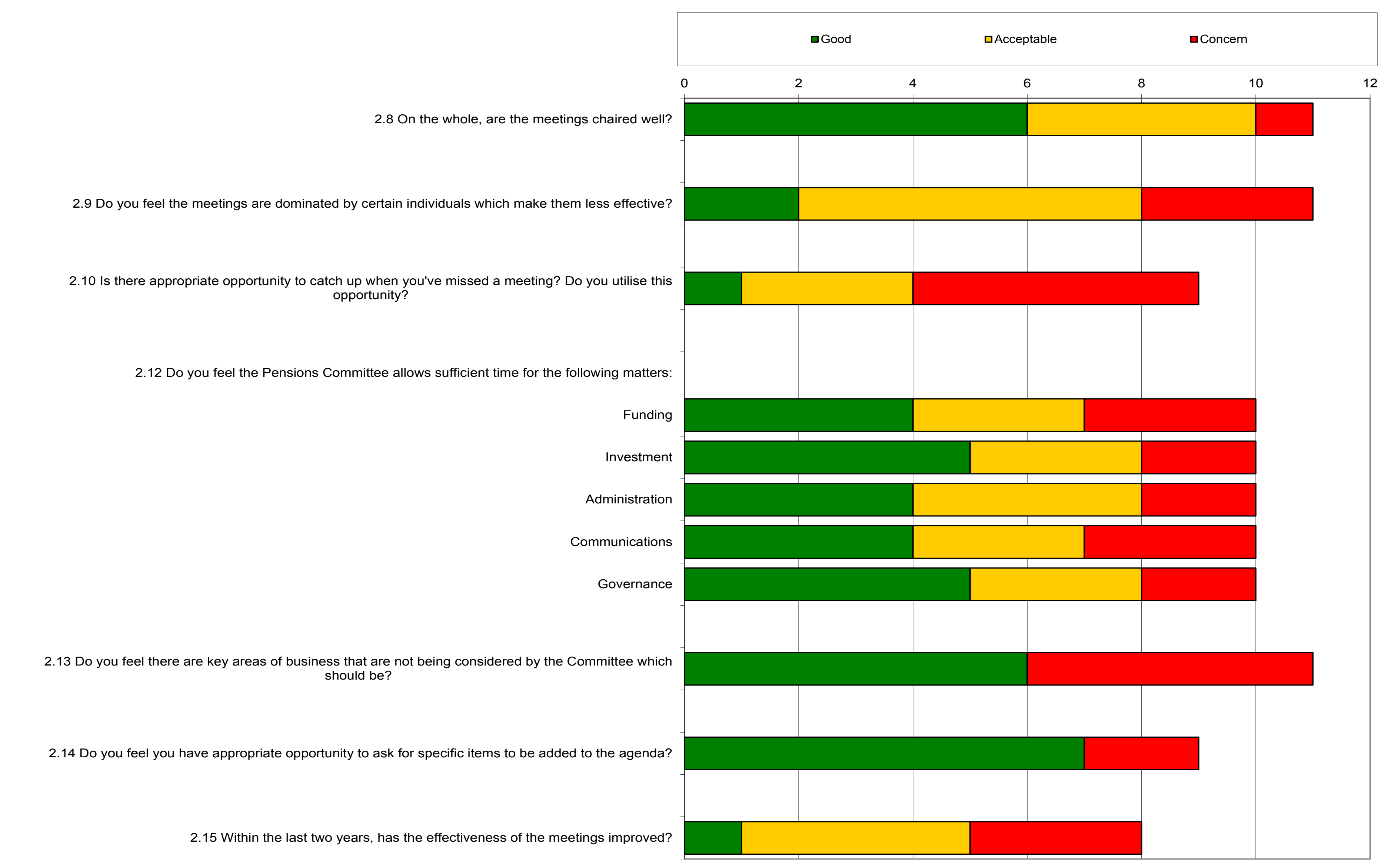
Appendix B – Effectiveness Questionnaire

We show below the results of the effectiveness questionnaire which was provided to all members of the PC, including co-opted members, and key officers of the Fund. The questionnaire was completed by 12 persons (out of a possible 16), albeit one was received too late in the day to be amalgamated into the results.

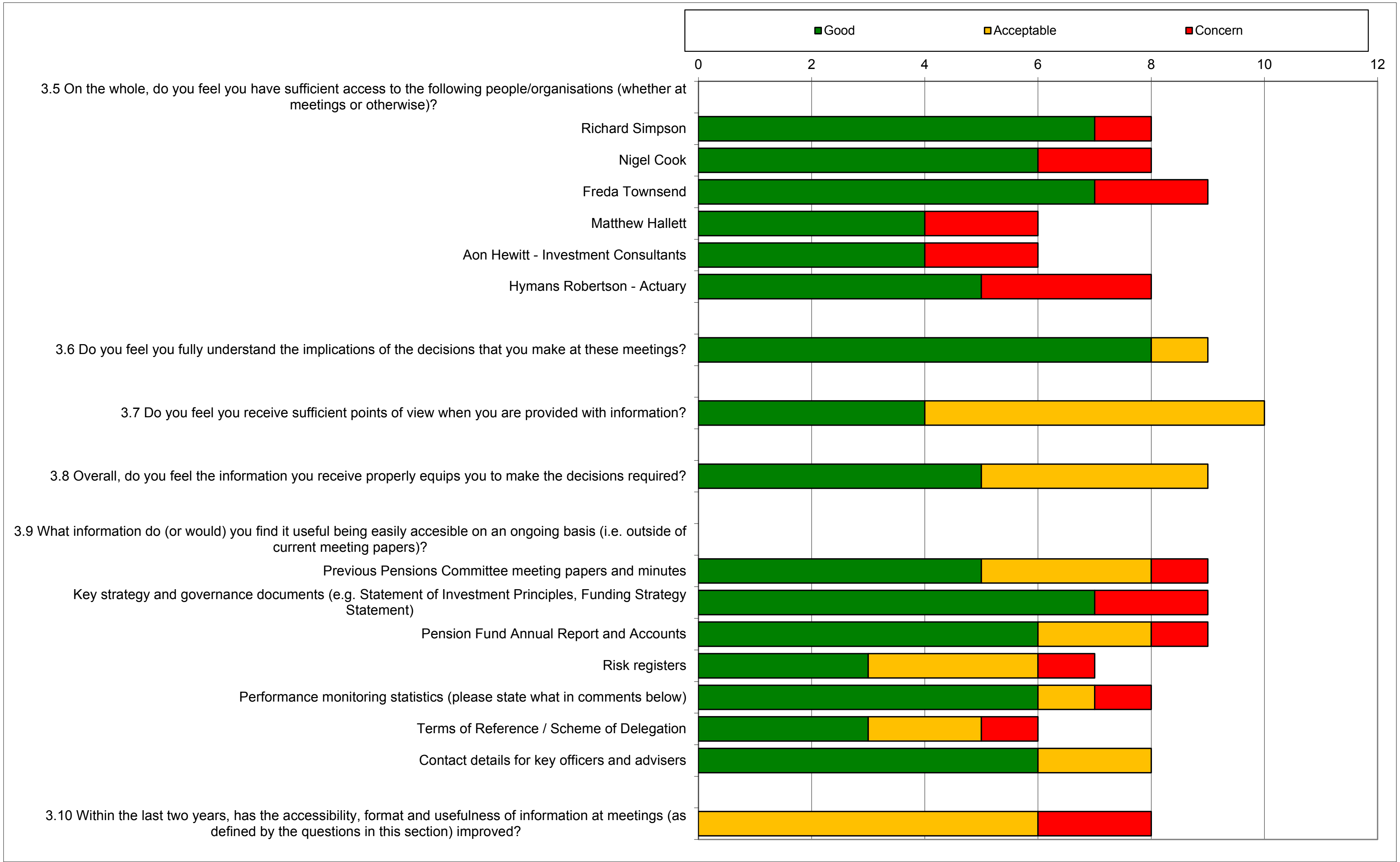
The bars in the graphs are colour coded to highlight particularly positive or negative answers. A key is provided on each page.

Section 2
Effectiveness of Meetings

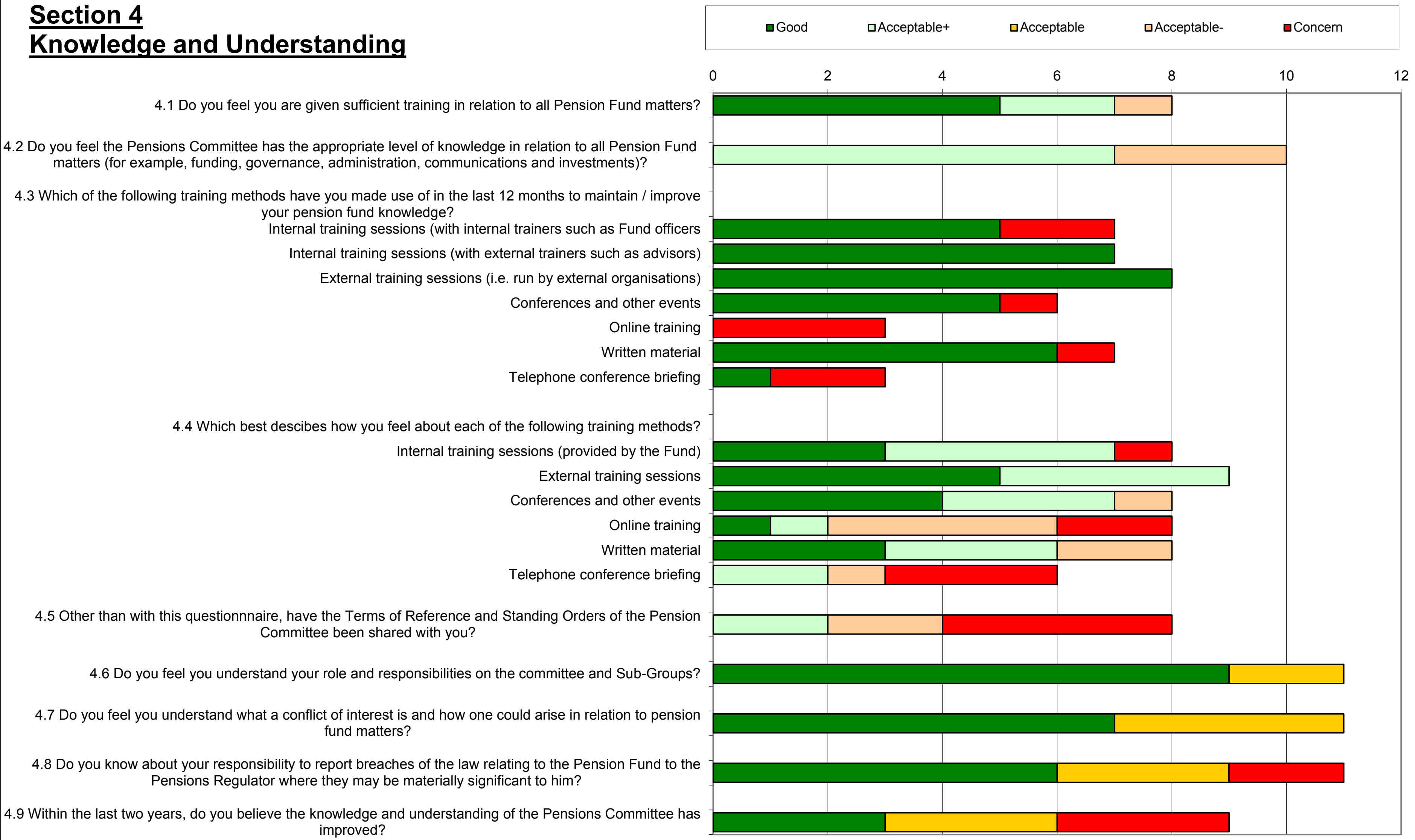



Good
Acceptable
Concern
0
2
4
6
8
10
12
2.8 On the whole, are the meetings chaired well?
2.9 Do you feel the meetings are dominated by certain individuals which make them less effective?
2.10 Is there appropriate opportunity to catch up when you've missed a meeting? Do you utilise this opportunity?
2.12 Do you feel the Pensions Committee allows sufficient time for the following matters:
Funding
Investment
Administration
Communications
Governance
2.13 Do you feel there are key areas of business that are not being considered by the Committee which should be?
2.14 Do you feel you have appropriate opportunity to ask for specific items to be added to the agenda?
2.15 Within the last two years, has the effectiveness of the meetings improved?

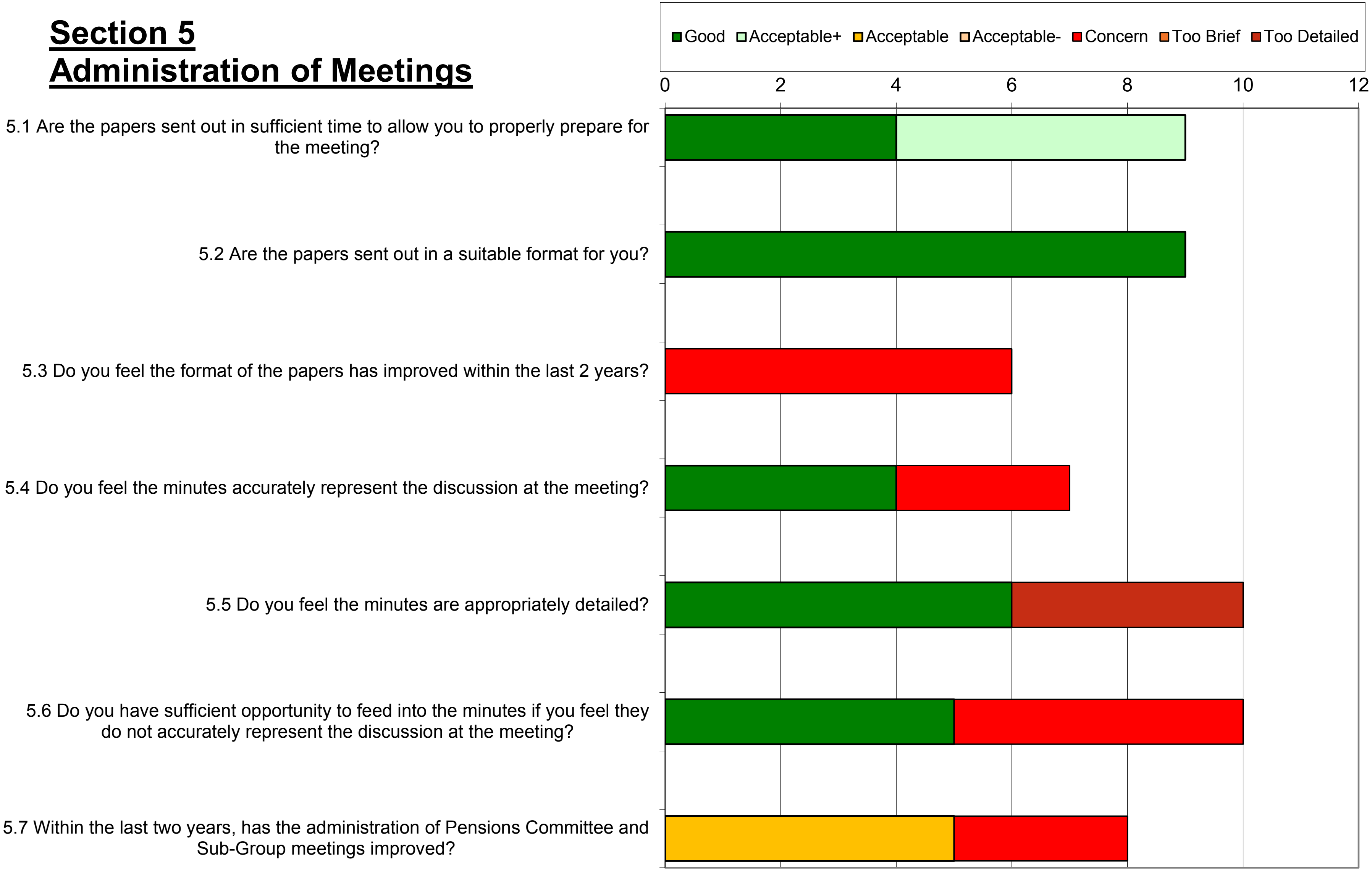
Section 3
Accessibility and Format of Information


Good
Acceptable
Concern
0
2
4
6
8
10
12
3.5 On the whole, do you feel you have sufficient access to the following people/organisations (whether at meetings or otherwise)?
Richard Simpson
Nigel Cook
Freda Townsend
Matthew Hallett
Aon Hewitt - Investment Consultants
Hymans Robertson - Actuary
3.6 Do you feel you fully understand the implications of the decisions that you make at these meetings?
3.7 Do you feel you receive sufficient points of view when you are provided with information?
3.8 Overall, do you feel the information you receive properly equips you to make the decisions required?
3.9 What information do (or would) you find it useful being easily accesible on an ongoing basis (i.e. outside of current meeting papers)?
Previous Pensions Committee meeting papers and minutes
Key strategy and governance documents (e.g. Statement of Investment Principles, Funding Strategy Statement)
Pension Fund Annual Report and Accounts
Risk registers
Performance monitoring statistics (please state what in comments below)
Terms of Reference / Scheme of Delegation
Contact details for key officers and advisers
3.10 Within the last two years, has the accessibility, format and usefulness of information at meetings (as defined by the questions in this section) improved?

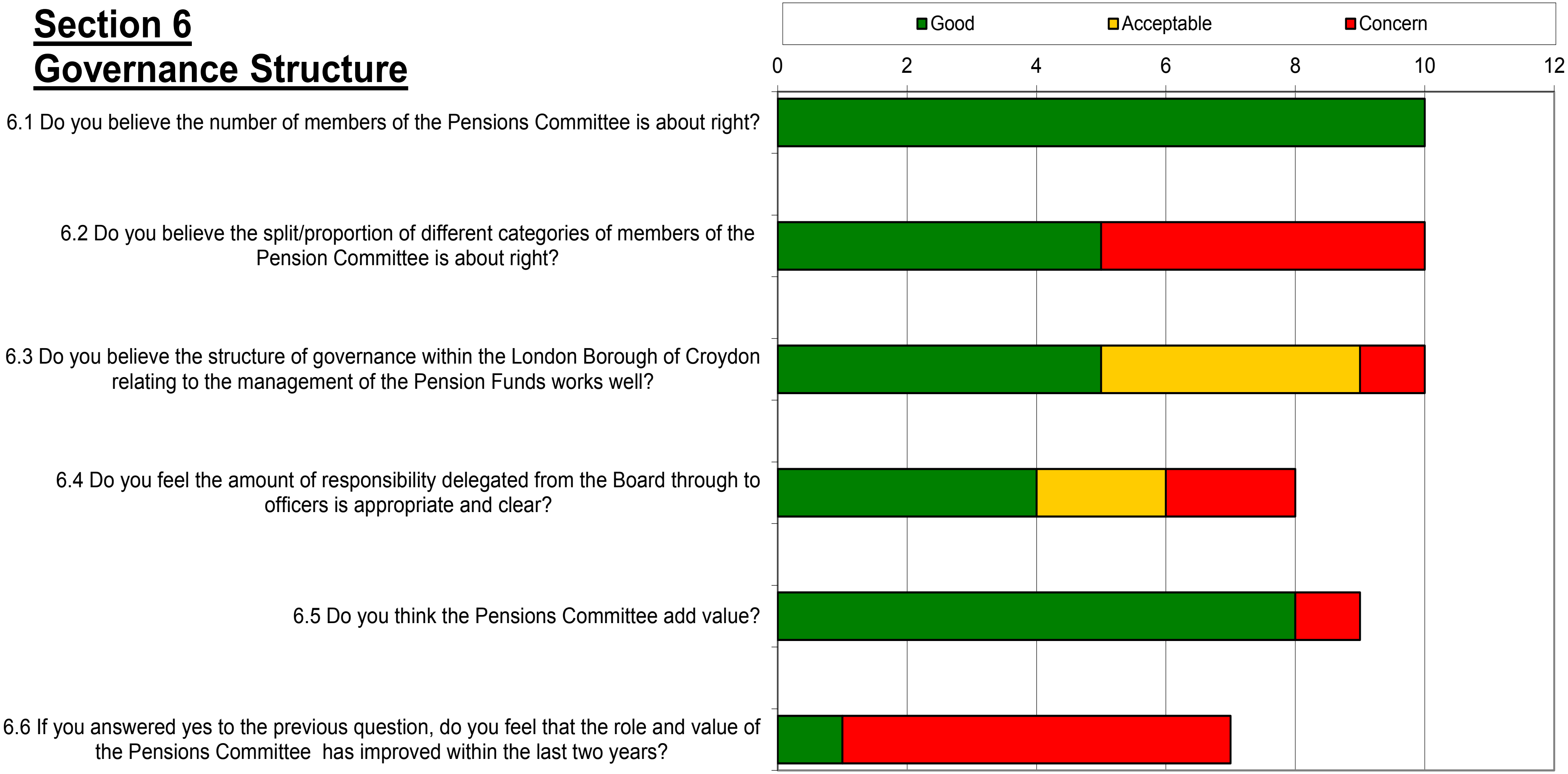
Section 4
Knowledge and Understanding



Section 5
Administration of Meetings

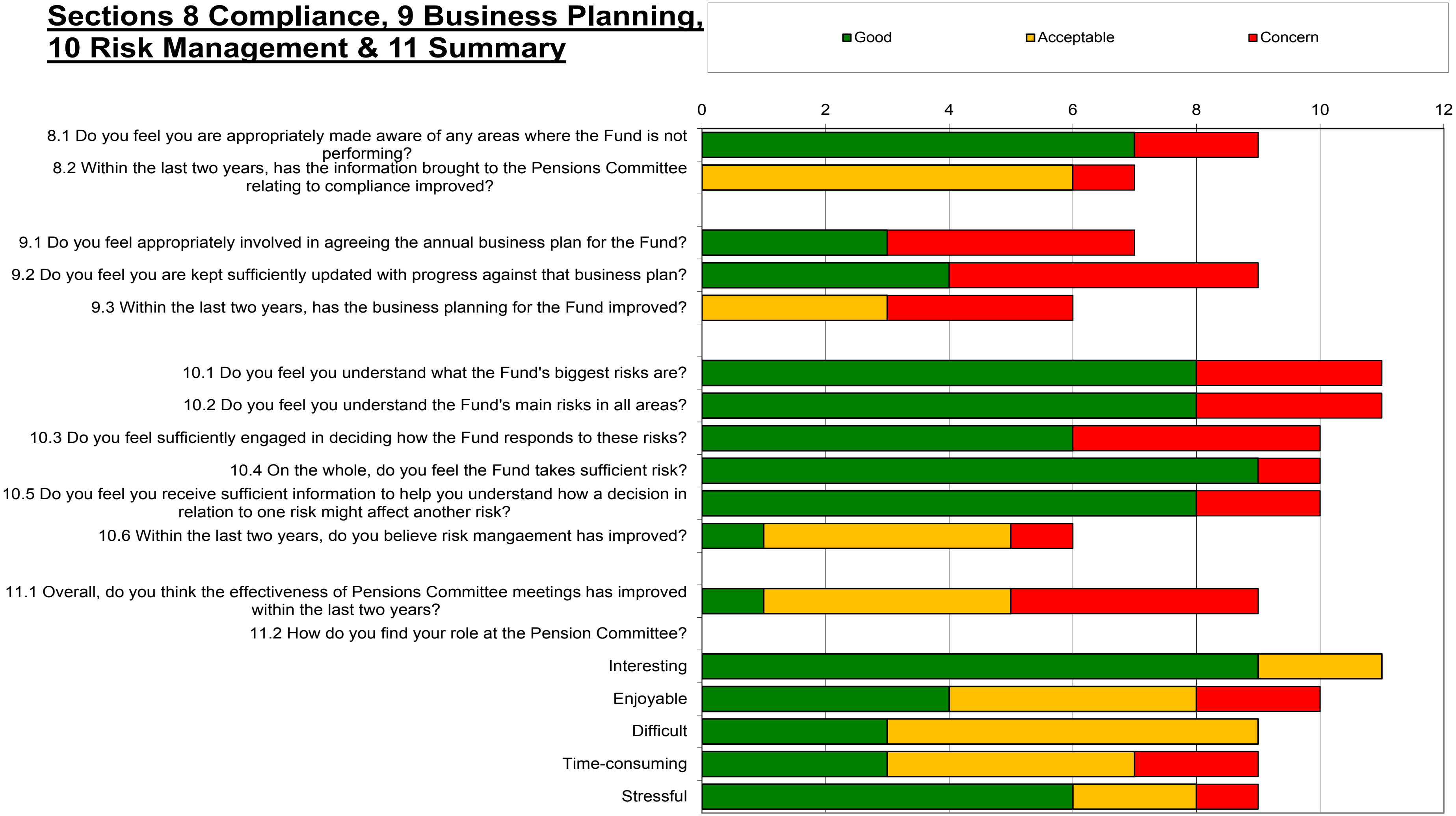


Section 6
Governance Structure



Section 7
Vision for the Future

Sections 8 Compliance, 9 Business Planning, 10 Risk Management & 11 Summary



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About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com for more information on Aon and aon.com/manchesterunited to learn about Aon's global partnership with Manchester United.

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Croydon Council

REPORT TO:	**PENSION COMMITTEE** **07 June 2016**
AGENDA ITEM:	**14**
SUBJECT:	**Progress Report for Quarter Ended 31 March 2016**
LEAD OFFICER:	**Richard Simpson, Assistant Chief Executive (Corporate Resources and s.151 Officer)**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments is in line with their benchmark and within the assumptions made by the Actuary.

FINANCIAL SUMMARY:

This report shows that the market value of the Pension Fund (the Fund) investments as at 31 March 2016 was £863.2m compared to £857.4m at 31 December 2015, an increase of £5.8m. The performance figures in this report have been provided by State Street Global Services – Performance Services and are quoted net of fees. Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor AON Hewitt.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1 RECOMMENDATIONS

1.1 The Committee are asked to consider and note the contents of this report.

2 EXECUTIVE SUMMARY

2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the year and quarter to 31 March 2016. This includes an analysis by asset class and by fund manager. The report comprises two parts: the second part of this report contains material that is considered commercially sensitive or material that is propriety for advisors to the Fund so appears in Part B of the agenda. Members of the Committee may wish to read this report in conjunction with the Fund Managers' and the State Street Global Services – Performance Services reports, which have been distributed separately. Table 1 below summarises this quarter's market values by asset class.

Table 1: Performance for Quarter Ended 31 March 2016

Asset Class	Value at Asset class at Quarter		Performance relative to benchmark (%)		
	Quarter Ended 31/12/2015	Quarter Ended 31/03/2016	Return Made (a)	Benchmark Return (b)	Over/Under Performance (a-b)
Global Equities - FTSE4 Good	432.3	432.8	1.5	1.6	-0.1
Global Equities - World Index	75.5	62.0	3.0	3.0	0.0
Global Fixed Interest	176.8	180.5	2.1	2.9	-0.8
Private Equity[1]	50.6	56.7	5.0	1.1	3.9
Property	94.6	95.7	1.3	1.1	0.2
Infrastructure[1]	29.7	38.7	1.7	1.1	0.6
Cash[2]	-2.1	-3.2	0.1	0.1	0.0
Fund Total	**857.4**	**863.2**			

Source: State Street Global Services- Performance Services

All figures are rounded to the nearest one decimal place for clarity. Because of roundings figures may not cross-cast. Source: State Street Global Services – Performance Services.

[1] Returns for private equity and infrastructure are lagged, that is to say the process by which the assets are valued and performance assessed takes longer than the time required to prepare quarterly valuations. These returns are also quite lumpy – so that one does not observe a steady, smooth growth in the value of the funds, rather they increase in value in steps.

[2] Cash figure is cash held in house. The performance figure reflects the use of AAA-rated money market funds to deposit working capital. These instruments are rated as being very risk averse but consequently generate less returns. The negative cash figure takes into account the March 2016 benefit payments of £5.7m which are paid by the Council and recharged to the pension fund. The actual cash balance was positive.

2.2 This report also considers officers' review of the Fund Managers over the quarter. This takes into consideration the performance of the Manager against the agreed target, trigger events defined by Croydon that require investigation, and the rating given by AON Hewitt; providers of independent analysis on the fund managers. AON Hewitt's ratings report (Appendix D) appears in the closed section of the report.

2.3 Financial and market commentaries from the Council's Independent Pension Fund Adviser AON Hewitt are appended to this report (Appendix F in the closed section of the report). AON Hewitt (Appendix E in the closed section of the report) provides a Market Valuation Review of the medium term outlook for returns over three to five years.

3 DETAIL - PERFORMANCE OF THE PENSION FUND

3.1 State Street Global Services – Performance Services collates valuation and performance data for Croydon's Pension Fund Investment Managers. Reporting on the Fund's performance has been provided below for the period to 31 March 2016. The overall Fund benchmark is a weighted average of the Fund's individual asset benchmarks based on the target allocation to each asset class.

Changes to Fund Structure

3.2 A new asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute .A29/15 refers). During the quarter the fund signed a commitment of €20m to a private equity fund specialising in small cap European buyouts managed by Access Capital Partners and has agreed a commitment of $25m to a private equity fund managed specialising in Trade Finance managed by Markham Rae. These are all in line with our shift in asset allocation towards a higher weighting in alternatives. Appendix G provides a more detailed narrative on the progress of this project.

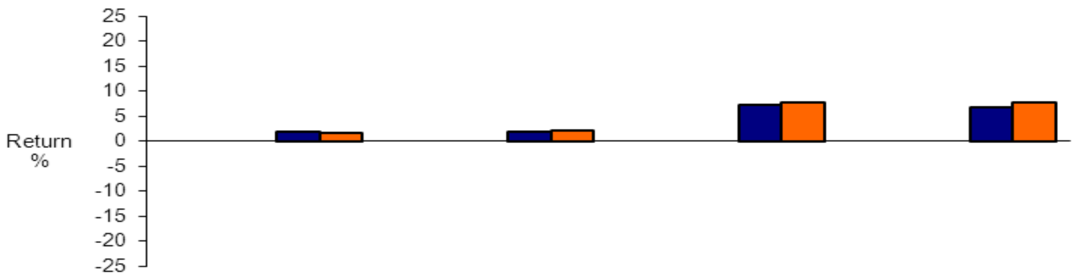
3.3 The cash balance reported in Table 1 above represents cash held by the in-house treasury team and includes both working capital (i.e. the difference between contributions received and benefits and transfers paid out) and cash liquidated awaiting reinvestment. Cash managed in-house is held as working capital and therefore during any given quarter can be reduced by the value of invoices paid out or transfers made. The largest regular charge on this sum relates to the cost of the pensions payroll that is financed by the General Fund of the Council and recharged to the Pension Fund. In keeping with best practice the cash is held and accounted for separately from the general funds of the authority. The balance is invested overnight in a Goldman Sachs Asset Management Money Market Fund. Interest is accrued on a daily basis and paid monthly.

Total Fund Performance

3.4 Chart 1 below provides a high level summary of the performance of the fund. The total Fund return for the quarter was 1.9% outperforming the benchmark by 0.2%. The Fund has underperformed the benchmark over the year, 3-year and 5-year periods. Further details of performance including underlying asset classes and individual fund managers are provided in section 4 below.

Chart 1: Performance of the Pension Fund

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	1.9	1.9	7.1	6.7
Benchmark	1.7	2.1	7.8	7.8
Relative Return	0.2	-0.3	-0.7	-1.0

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

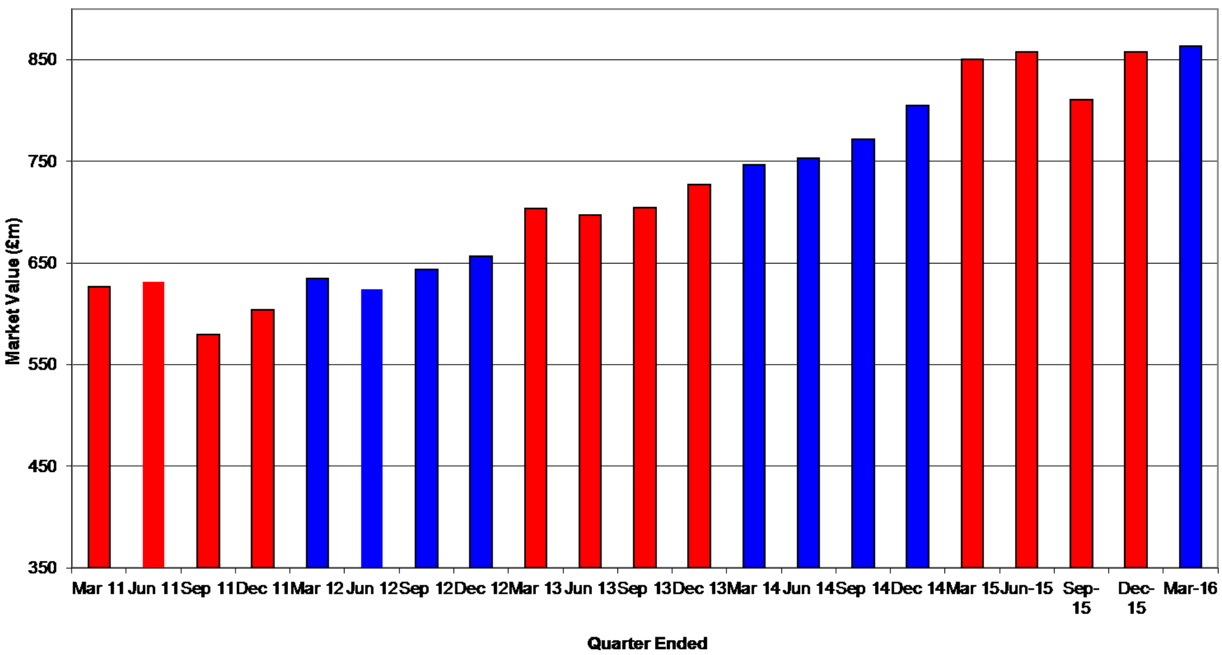
The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

= Data not available for the full period

Source: State Street Global Services – Performance Services

3.5 Chart 2 below details the movement in the Market Value of Fund on a quarter by quarter basis, over a 5-year period. The market value of the fund at the end of March 2016 was £863.2m, an increase of £5.8m over the previous quarter's valuation.

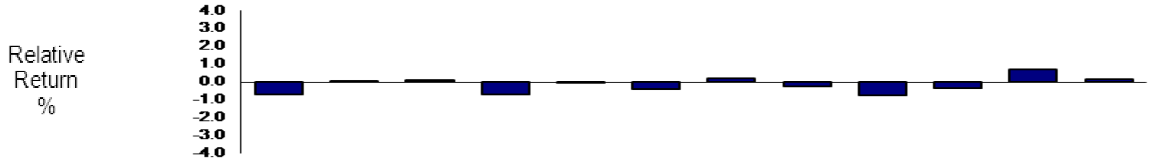
Chart 2: Trend in Total Value of Pension Fund in £millions



3.6 Chart 3 below illustrates the Fund’s historic relative performance against the benchmark since inception of the revised investment strategy. This benchmark is an aggregate of individual asset class benchmarks weighted by the Fund’s target asset allocations.

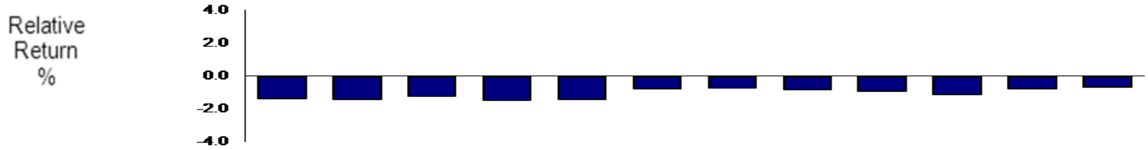
Chart 3: Trend in Relative Returns of the Pension Fund

Quarterly Returns



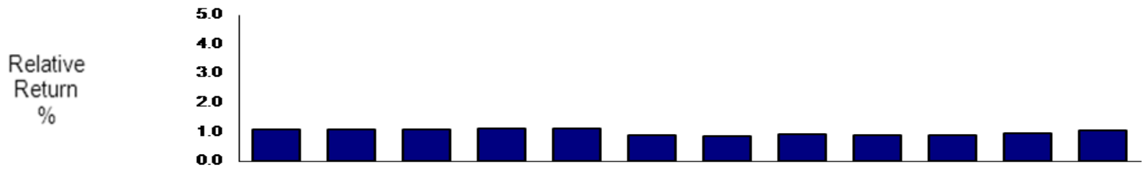
Fund	-0.2	1.4	3.3	0.8	2.3	2.6	4.2	4.8	-2.8	-1.9	4.9	1.9
Benchmark	0.5	1.4	3.2	1.6	2.3	3.0	4.0	5.0	-2.1	-1.5	4.1	1.7
Relative Return	-0.7	0.0	0.1	-0.7	-0.0	-0.4	0.2	-0.2	-0.8	-0.4	0.7	0.2

Annualised Rolling 3 Year Returns



Fund	8.2	6.5	6.1	5.9	6.3	10.3	10.4	10.2	9.5	7.9	9.1	7.1
Benchmark	9.7	8.0	7.5	7.4	7.9	11.2	11.2	11.1	10.6	9.1	9.9	7.8
Relative Return	-1.4	-1.4	-1.2	-1.5	-1.4	-0.8	-0.7	-0.8	-0.9	-1.1	-0.8	-0.7

Rolling 3 Year Risk



Relative Risk	1.1	1.1	1.1	1.1	1.1	0.9	0.9	0.9	0.9	0.9	0.9	1.0
Information Ratio	-1.3	-1.3	-1.1	-1.3	-1.3	-0.9	-0.8	-0.9	-1.1	-1.2	-0.8	-0.6

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Source: State Street Global Services – Performance Services

Attribution

3.7 For the period ending 31 March 2016 the Fund's return of 1.9% was 0.2% over the benchmark return. The summary table below shows the attribution of performance to asset allocation and stock selection.

Summary:

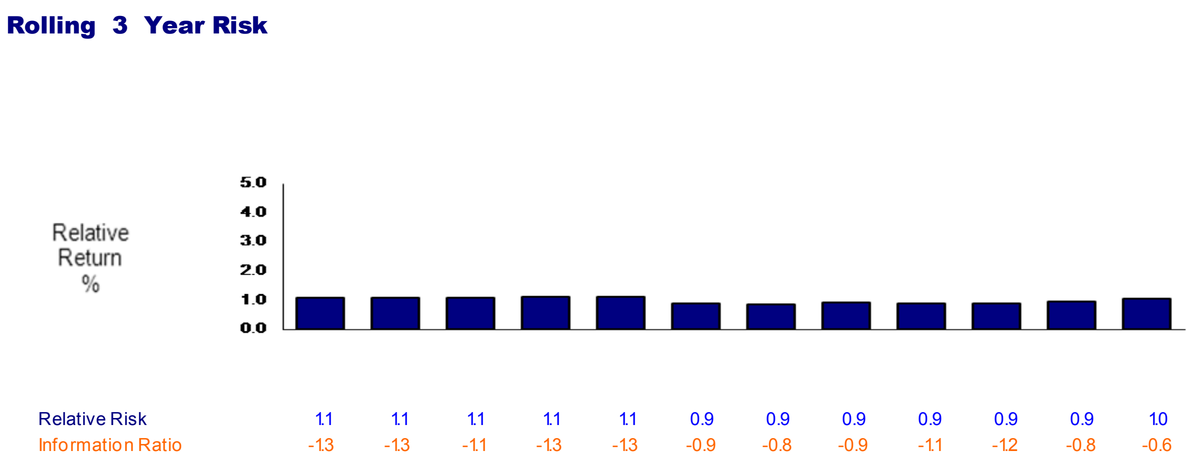
Fund Return	1.9
Benchmark Return	1.7
Relative Performance	0.2
attributable to:	
Asset Allocation	-
Stock Selection	0.1

Source: State Street Global Services – Performance Services

Risk

3.8 Chart 4 below illustrates the relative risk of the fund over the past 3 years. Relative risk measures the degree of fund performance deviation from benchmark. This is compared with the information ratio, a measure of manager skill in adding value over and above the benchmark. The reduction in relative risk is consistent with the strategy to move away from more rigidly idiosyncratic investment styles.

Chart 4: Relative Risk of the Pension Fund



Source: State Street Global Services – Performance Services

3.9 State Street Global Services – Performance Services graphs demonstrating the impact of asset allocation and stock selection are attached as Appendix C to this report.

3.10 Below is a table of the Top 10 holdings within the segregated part of the portfolio:

Top 10 Holdings Held in Fund	Value (£m)	Weight %
APPLE INC	15.50	1.80%
ALPHABET INC	11.24	1.30%
MICROSOFT CORP	10.84	1.26%
JOHNSON & JOHNSON	7.63	0.88%
WELLS FARGO & CO	6.34	0.73%
AT&T INC	6.21	0.72%
NESTLE SA	6.00	0.69%
PROCTER & GAMBLE CO/THE	5.67	0.66%
VERIZON COMMUNICATIONS INC	5.66	0.66%
COCA-COLA CO/THE	4.90	0.57%

4 FUND MANAGER PERFORMANCE

Summary

4.1 Appendix A details the market value and performance over the quarter and since inception for each fund manager.

4.2 Chart 5 illustrates the performance of each fund manager against their benchmark over the most recent quarter and Chart 6 demonstrates performance for each since inception. Note that the benchmark for private equity does not satisfactorily reflect the potential of immature funds such as Equitix and Knightsbridge. Consequently these two charts do not show performance for the quarter and from inception for the private equity and infrastructure funds, that is to say, Equitix, Temporis, Access, Knightsbridge and Pantheon.

Chart 5: Fund Manager Quarterly Returns

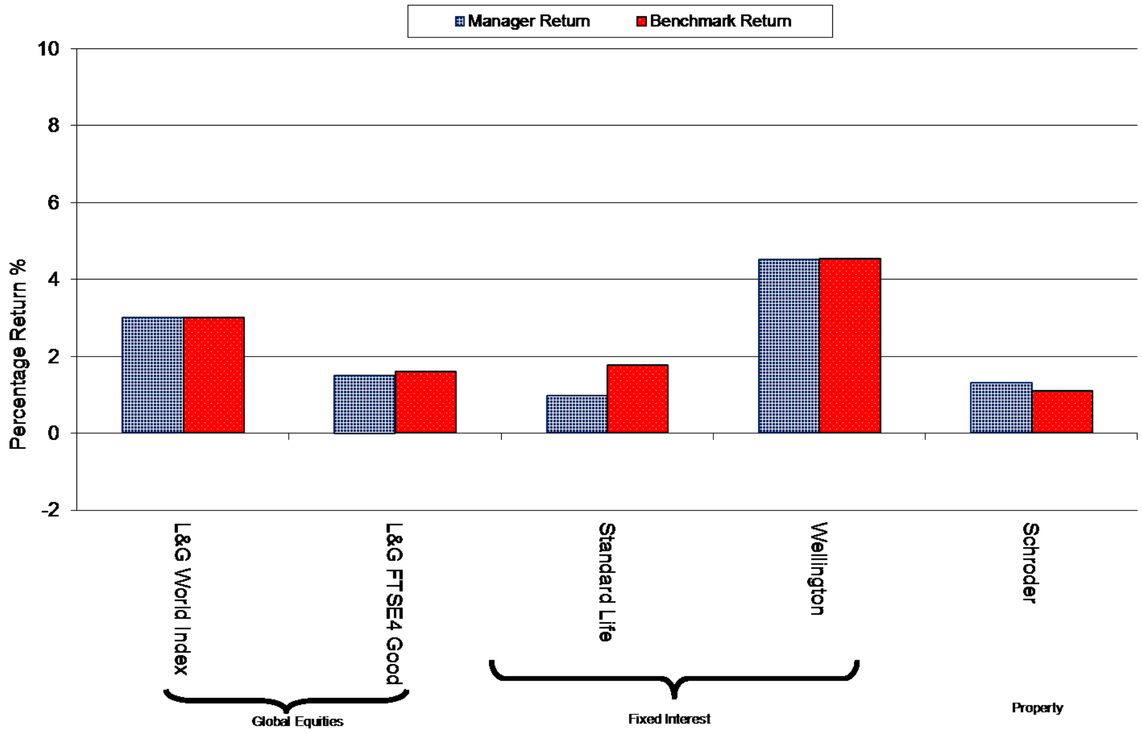
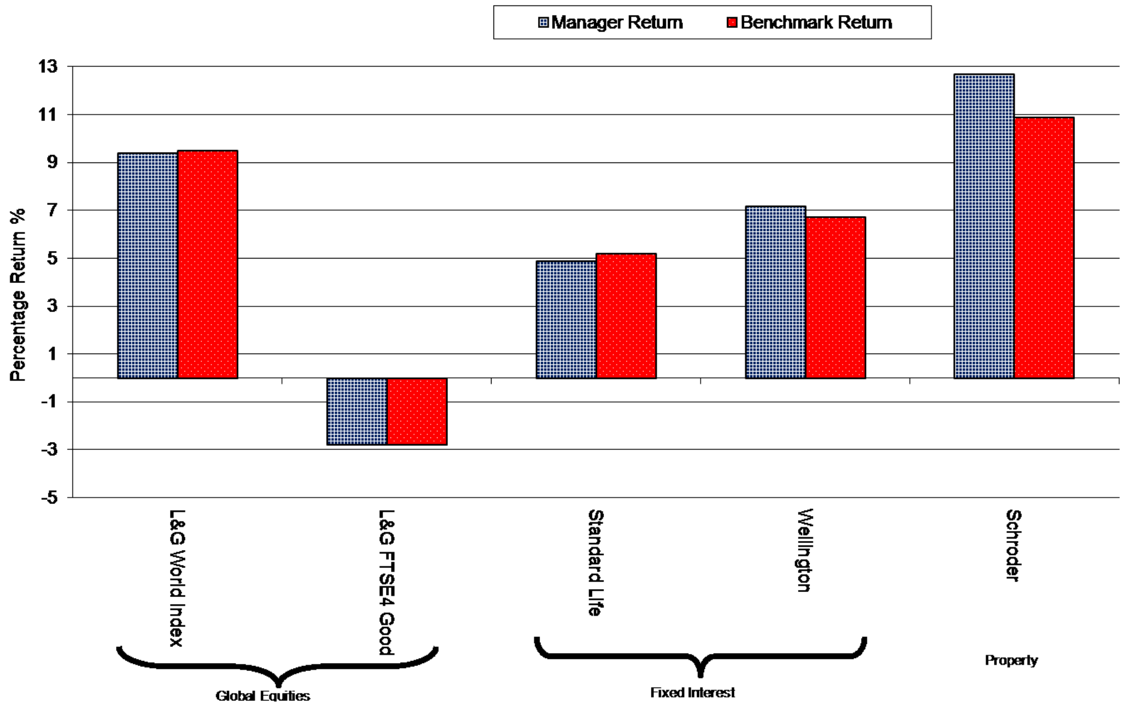


Chart 6: Fund Manager Returns Since Inception



Fund Manager Review

4.3 Officers continuously review the performance of managers and engage with them periodically. A summary table of results is provided below. A tolerance level of 1% below the benchmark has been set for further investigation. Where appropriate, Officers will meet with the manager to discuss performance and consistency of investment themes. Note, where underperformance is consistent across all managers, and attributable to market conditions, - i.e. beta, a review will be considered based on the circumstances at the time. Along with performance data, qualitative information will be considered based on trigger events, news and reviews by the Fund's independent advisors. Members are invited to comment on the outcome of this review process.

Table 2: Summary by Fund Manager

Fund Manager	Is Performance in line with the appropriate index? (allowing for 1% variance)	Has there been no trigger event?	Has there been a visit (or virtual meeting) this quarter?
L&G	✓	✓	✓
Standard Life	✓	✓	X
Wellington	✓	✓	X
Pantheon	n/a	✓	X
Equitix	n/a	✓	✓
Knightsbridge	n/a	✓	X
Schroders	✓	✓	✓

Performance

4.4 There was a range of outperformance and underperformance by the managers against their benchmarks over the quarter. For further details please refer to Appendix A showing the State Street Global Services – Performance Services performance for each fund manager.

Equities

4.5 The L&G FTSE World tracker slightly under performed in line with the index returning 3.0% and the L&G segregated equity portfolio (tracking FTSE4 Good Index) underperformed the index by 0.1% returning 1.5%. Global equities were down significantly in the first half the quarter and then recovered to produce positive returns. Our portfolio holds a significant weighting to overseas equities, so was also helped by a sharp fall in sterling due to Brexit fears.

Fixed Interest

4.6 Wellington's performance of 4.5% during the quarter was in line with the benchmark and continues to outperform the BAML GBP Broad Market benchmark by 0.5% since inception. Standard Life underperformed the benchmark by 0.8% over the quarter and has underperformed the benchmark by 0.3% since inception.

Property

4.7 The Schroders' UK property portfolio is measured against the IPD All Balanced Weighted Average index. The portfolio outperformed the benchmark by 0.2% during the quarter to 31 March 2016 and has done well for the fund returning 12.7% and outperforming the benchmark by 1.6% since inception.

Private Equity and Infrastructure

4.8 The most appropriate measure to monitor the performance of these type of funds is to use the Internal Rate of Return (IRR) since inception as this explicitly takes the irregular timings of cash flows into account. Although this measure cannot be compared to the time-weighted measure used for standard investments and for immature funds (less than six years old) as the results can be misleading. We have calculated the IRR for Pantheon as 11.4%, Equitix 16.9% and Knightsbridge as 13.3%, although Equitix has one immature fund out of three and Knightsbridge has one immature fund out of two. The returns are still seen as being extremely good for all three investment managers.

Manager Visits

4.9 In addition to virtual meetings held during the quarter ended 31 March 2016, officers and/or members attended meetings with the following managers:

Manager	**Date of Meeting**
Legal & General	26 January 2016
Equitix	10 February 2016
Schroders	22 February 2016

5. ASSET ALLOCATION

Effect on Performance

5.1 Returns of the Fund are due to two factors; the allocation of investments to different assets classes; and how these individual asset classes perform. The strategic asset allocation changed at the September 2015 Pensions Committee and Table 3 below summarises the actual asset allocation against the target position as at 31 March 2016. The geographical breakdown of asset allocation is provided in the State Street Global Services – Performance Services Asset Mix and Returns schedule attached as Appendix B.

Asset Class	Percentage of Fund Value	Strategic Allocation	Variance
Equities	57.6%	42%+/-5	15.6%
Fixed Income	20.9%	23%+/-5	-2.1%
Property	11.1%	10% +/- 3	1.1%
Private Equity	6.1%	8%	-1.9%
Infrastructure	4.5%	10%	-5.5%
PRS	0.0%	6%	-6.0%
Cash	-0.2%	1%	-1.2%

Source: State Street

5.2 The Fund currently holds an overweight position in equities and this is expected to continue in the short to medium term as progress is made in moving assets towards the new allocation. As well as liquidating equity investments to seed new investments the Fund will be taking dividends as cash to ensure future commitments in other asset classes can be met. Progress towards the new asset allocation needs to be completed in a managed way so as not to expose the fund to liquidity issues. Progress to date is summarised in Appendix G.

6 INVESTMENT ADVISOR'S REVIEW

6.1 An independent review of the fund managers has been provided by AON Hewitt in the Managing Monitoring Report attached as Appendix D on the closed section of the agenda. AON Hewitt has applied a rating to each fund manager and a traffic light system has been used to highlight where there are issues of concern surrounding each manager.

6.2 AON Hewitt have also produced a Market Review paper for the quarter ended 31 March 2016, it is attached at Appendix E in the closed section of this report. This examines the prospects for equities and fixed interest over the forth coming period.

7 CONSULTATION

7.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

8 FINANCIAL CONSIDERATIONS

8.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

9. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

9.1 The Solicitor to the Council comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer)

10. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

10.1 This report contains confidential information which could be of a sensitive nature, disclosure of which could prejudice the commercial interest of the companies involved and those of the Council's Pension Fund.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Corporate Resources Department, ext. 62552.

BACKGROUND DOCUMENTS: Reports from State Street Global Services – Performance Services

Reports from AON Hewitt

Appendices

Appendix A: Summary of Manager Performance

Appendix B: Asset Mix and Returns

Appendix C: Detailed Analysis of the Latest Quarter Performance

Appendix G: Progress towards revised asset allocation

The following appendices are commercially sensitive:

Appendix D: AON Hewitt Manager Monitoring Report

Appendix E: AON Hewitt Market Review: 3 months to 31 March 2016

Appendix F: AON Hewitt Quarterly Investment Outlook

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Summary of Manager Performance - Rates of Return

LONDON BOROUGH OF CROYDON - TOTAL COMBINED

Periods to end March 2016
Pound Sterling

	Mkt Val (GBP 1000)	% of Fund	Latest Quarter	1 Year	3 Years	5 Years	Since Inception	Incept. Date
Bonds - World								
WELLINGTON	59,124	6.8	4.5	2.1	4.6	7.4	7.2	29/1/2010
BAML GBP BROAD MARKET			4.5	2.4	4.9	7.0	6.7	
			0.0	-0.3	-0.3	0.3	0.4	
STANDARD LIFE	121,355	14.0	1.0	0.2	2.9	4.8	4.9	31/3/2010
STANDARD LIFE CUSTOMISED BOND BENCHMARK			1.8	1.9	3.9	5.2	5.2	
			-0.8	-1.7	-1.0	-0.4	-0.3	
Private Equity								
KNIGHTSBRIDGE	14,337	1.6	5.3	11.4	21.4	12.0	9.3	31/12/2009
LB OF CROYDON - KNIGHTSBRIDGE PRIVATE EQUITY B/M			7.9	3.3	11.2	6.1	7.7	
			-2.5	7.9	9.2	5.6	1.4	
PANTHEON VENTURES	40,750	4.7	4.9	13.5	9.4	9.3	9.5	31/12/2001
LB OF CROYDON - PANTHEON PRIVATE EQUITY B/M			3.9	1.0	7.2	6.0	5.8	
			0.9	12.4	2.0	3.1	3.5	
ACCESS CAPITAL	1,579	0.2	n/a					31/12/2015
UK CPI +5%								
Infrastructure								
EQUITIX	32,988	3.8	1.8	13.5	6.4	10.9	10.6	31/12/2009
12% PER ANNUM (GBP)			2.9	12.0	12.0	12.0	12.0	
			-1.0	1.3	-5.0	-1.0	-1.3	
TEMPORIS CAPITAL	5,684	0.7	n/a					31/12/2015
UK CPI +5%								
Cash								
INTERNALLY MANAGED CASH	-3,212	-0.4	n/a	n/a	n/a	n/a	n/a	28/6/2002
GBP 7 DAY LIBID			0.1	0.3	0.3	0.4	2.3	
Equity - World								
L&G	62,038	7.1	3.0	-0.1			9.4	30/4/2014
FTSE World TR			3.0	0.0			9.5	
			0.0	-0.1			-0.1	
L&G	438,802	50.4	1.5	-1.0			-2.8	23/3/2015
FTSE4GOOD GLOBAL BENCHMARK TR			1.6	-0.6			-2.8	
			-0.1	-0.4				
Property - UK								
SCHRODER INVESTMENT MGMT INTL	95,732	11.0	1.3	11.5	14.7		12.7	31/8/2012
AREF/IPD ALL BALANCED			1.1	10.6	13.0		10.9	
			0.2	0.8	1.5		1.6	
TOTAL FUND								
TOTAL COMBINED	869,176	100.0	1.9	1.9	7.1	6.7	7.6	31/12/1990
L B OF CROYDON BENCHMARK			1.7	2.1	7.8	7.8	8.4	
			0.2	-0.3	-0.7	-1.0	-0.7	

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Asset Mix and Returns

LONDON BOROUGH OF CROYDON - TOTAL COMBINED — **Periods to end March 2016**

Benchmark - L B OF CROYDON BENCHMARK — **Pound Sterling**

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation								Stock Selection	
	31/12/2015				Gain/		31/03/2016			
	Value	%	Purchases	Sales	Loss	Income	Value	%	Return	B'M
TOTAL EQUITIES	*504,807*	*59*	*6,652*	*18,840*	*5,508*	*2,375*	*498,126*	*57*	*1.7*	*1.6*
GLOBAL POOLED INC UK	*504,807*	*59*	*6,652*	*18,840*	*5,508*	*2,375*	*498,126*	*57*	*1.7*	*1.6*
GLOBAL EQUITIES	*429,281*	*50*	*6,652*	*3,827*	*3,982*	*2,375*	*436,088*	*50*	*1.5*	
WORLD EQUITY INDEX	*75,525*	*9*		*15,013*	*1,526*		*62,038*	*7*	*3.0*	
TOTAL BONDS PLUS INDEX-LINKED	*176,749*	*21*	*1*		*3,728*	*1*	*180,478*	*21*	*2.1*	*2.9*
STANDARD LIFE GARS	*65,438*	*8*			*-467*		*64,972*	*7*	*-0.7*	
POOLED BONDS	*111,311*	*13*	*1*		*4,195*	*1*	*115,506*	*13*	*3.8*	*2.9*
CORPORATE BONDS	*54,744*	*6*			*1,639*		*56,383*	*6*	*3.0*	*1.8*
GLOBAL BOND FUND	*56,567*	*7*	*1*		*2,555*	*1*	*59,124*	*7*	*4.5*	*4.5*
CASH/ALTERNATIVES	*81,673*	*10*	*48,503*	*37,664*	*3,156*	*3*	*95,668*	*11*	*3.7*	*1.1*
TOTAL CASH	*1,342*	*0*	*35,652*	*36,664*		*3*	*330*	*0*	*n/a*	*0.1*
ALTERNATIVES	*80,331*	*9*	*12,851*	*1,000*	*3,156*		*95,338*	*11*	*3.7*	*1.1*
TOTAL INFRASTRUCTURE	*29,707*	*3*	*8,411*		*554*		*38,672*	*4*	*1.7*	*1.1*
EQUITIX PRIVATE EQUITY	*29,707*	*3*	*2,727*		*554*		*32,988*	*4*	*1.8*	
TEMPORIS INFRASTRUCTURE			*5,684*				*5,684*	*1*	*0.0 #*	
TOTAL PRIVATE EQUITY	*50,624*	*6*	*4,441*	*1,000*	*2,602*		*56,666*	*7*	*5.0*	*1.1*
PANTHEON PRIVATE EQUITY	*36,517*	*4*	*2,862*	*489*	*1,860*		*40,750*	*5*	*4.9*	
PANTHEON US FUND	*2,128*	*0*		*212*	*22*		*1,938*	*0*	*1.1*	
PANTHEON ASIA FUND	*101*	*0*	*7*	*17*	*5*		*95*	*0*	*4.9*	
PANTHEON EUROPE FUND	*2,082*	*0*		*259*	*84*		*1,907*	*0*	*4.3*	
PANTHEON - ASIA IV	*4,504*	*1*	*346*		*483*		*5,333*	*1*	*10.3*	
PANTHEON - EUROPE FUND VII	*7,237*	*1*	*480*		*418*		*8,135*	*1*	*5.6*	
PANTHEON USA FUND IX	*9,926*	*1*	*301*		*437*		*10,664*	*1*	*4.3*	
PANTHEON GLOBAL CO INVESTMEN	*8,767*	*1*	*369*		*293*		*9,429*	*1*	*3.3*	
PANTHEON - GLOBAL SECONDARY F	*1,773*	*0*	*758*		*146*		*2,676*	*0*	*6.8*	
PANTHEON - L.B. OF CROYDON PEN			*601*		*-27*		*574*	*0*	*-4.6 #*	
KNIGHTSBRIDGE VENTURE CAPITAL	*14,106*	*2*		*511*	*741*		*14,337*	*2*	*5.3*	
ACCESS CAPITAL PRIVATE EQUITY			*1,579*				*1,579*	*0*	*0.0 #*	
TOTAL - EX. PROPERTY	*763,229*	*89*	*55,156*	*56,505*	*12,391*	*2,379*	*774,271*	*89*	*1.9*	*1.8*
U.K. PROPERTY	*94,151*	*11*	*912*	*706*	*548*	*644*	*94,905*	*11*	*1.3*	*1.1*
PROPERTY UNIT TRUSTS	*88,263*	*10*	*912*	*706*	*542*	*627*	*89,012*	*10*	*1.3*	
PROPERTY	*5,888*	*1*			*6*	*17*	*5,893*	*1*	*0.4*	
TOTAL ASSETS	**857,380**	**100**	**56,068**	**57,211**	**12,939**	**3,023**	**869,176**	**100**	**1.9**	**1.7**

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Detailed Analysis of the Latest Quarter Performance

LONDON BOROUGH OF CROYDON - TOTAL COMBINED — **Periods to end March 2016**
Benchmark - L B OF CROYDON BENCHMARK — **Pound Sterling**
Category - TOTAL ASSETS

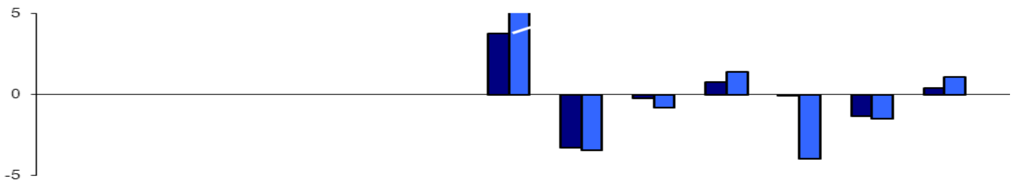
This page analyses in detail the Fund performance over the latest period.

Summary

Fund Return	1.9
Benchmark Return	1.7
Relative Performance	0.2
attributable to:	
Asset Allocation	-
Stock Selection	0.1

The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

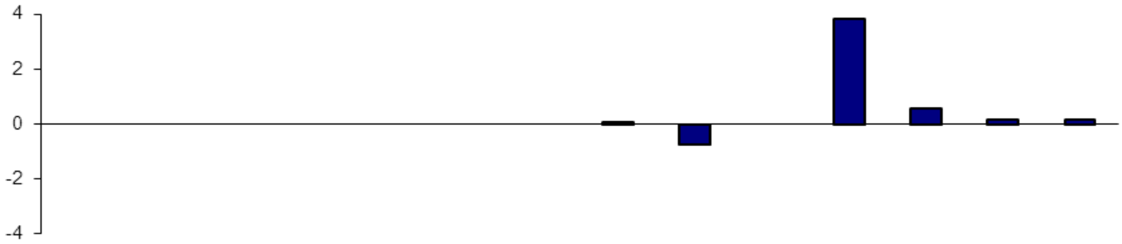
Asset Allocation



Relative Weighting %

	Total Equity	Bonds + IL	Cash	Private Eq	Infrastruc	Property	Total Fund
Fund Start	58.9	20.6	0.2	5.9	3.5	11.0	100.0
Fund End	57.3	20.8	0.0	6.5	4.4	10.9	100.0
BM Start	42.0	23.0	1.0	8.0	10.0	16.0	100.0
BM End	42.0	23.3	1.0	8.0	9.9	15.9	100.0
Impact	-	-	-	-	-	-	-

Stock Selection



	Total Equity	Bonds + IL	Cash	Private Eq	Infrastruc	Property	Total Fund
Fund	1.7	2.1	n/a	5.0	1.7	1.3	1.9
Benchmark	1.6	2.9	0.1	1.1	1.1	1.1	1.7
Impact	-	-0.2	-	0.2	-	-	0.1
	0.1	-0.7	n/a	3.9	0.6	0.2	0.2

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Appendix G – Progress update revised asset allocation

	Private Equity	Infrastructure	Property	PRS
Target Asset Allocation	8%	10%	10%	6%
Current Asset Allocation	6.1%	4.5%	11%	0%
Original Plan	Identification of potential target funds for investment. Two new funds with commitments of £10m -£15m in addition to meeting requirements to maintain current programme Aug to mid- October 2015	Identification of potential target funds for investment – New funds with commitments of £10m -£25m August to November 2015	Schroders have identified additional investment opportunities to take the allocation to the target 10% Complete	Identification of potential target funds for investment. August – October 2015
Progress	We have met with and reviewed our existing managers and concluded that we will commit to their latest vintages meaning that £20m will be invested over a three-year period. We have agreed to commit £15m to Access European Buyout Fund and made our first investment. We have agreed to commit £17m to Markham Rae Trade Capital Partners subject to satisfying legal terms which will be completed by 30 June 2016. We are expecting the first commitment to be drawn in quarter 3. The invested allocation to Private Equity has increased by 0.2% over the quarter.	We have signed up to the latest vintage for Equitix committing £10m and signed up to Temporis Renewable Energy Fund committing £15m. Temporis has drawn £5m to date. Due diligence is continuing with the expectation that a further £25m will be committed by 30 June 2016. The invested allocation to infrastructure has increased by 1% over the quarter. We are also monitoring progress of the CIV, currently looking at this assets class, for further opportunities.	The returns on this asset class mean that the Fund is currently overweight.	Signed up to a commitment of £25m with M&G where we are now in a queue for funds to be drawn. We are expecting drawdown to commence in autumn 2016. We are also actively engaging with the CIV to allocate the other £25m of our targeted allocation.
Status	ONGOING - GREEN	ONGOING - GREEN	COMPLETE	ONGOING - GREEN

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