

# Pension Board Supplementary Agenda



**5. AON Governance Review (Pages 3 - 60)**

For the members of the Board to consider the final report of the Governance Review (Appendix A).

JACQUELINE HARRIS BAKER  
Council Solicitor and Monitoring Officer  
London Borough of Croydon  
Bernard Weatherill House  
8 Mint Walk, Croydon CR0 1EA

Annette Wiles 0208 8726 6000 x64877  
020 8726 6000  
annette.wiles@croydon.gov.uk  
[www.croydon.gov.uk/meetings](http://www.croydon.gov.uk/meetings)

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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  
**Prepared by** Mary Lambe, Senior Public Sector Benefits & Governance Consultant  
Karen McWilliam, Partner & Head of Public Sector Benefits & Governance Consultancy  
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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 88 Funds who are part of the national Local Government Pension Scheme ("LGPS") in England and Wales.

The purpose of this review is to check the progress that the London Borough of Croydon the Administering Authority for the Fund has made since the original governance review which we carried out in early 2016. We have focussed the review on the areas previously highlighted as amber or red as well as undertaking a full assessment of any existing policies which have been updated and new policies in place since 2016. In addition, we also consider the fund's governance arrangements in relation to the evolution to asset pooling through the London CIV.

We will cover areas such as:

- is the reporting in relation to the Fund evolving effectively and does it provide the necessary information
- does the risk management reflect the move to the London CIV
- has the administering authority's governance structure been updated as necessary and
- how effective is the process for making decisions relating to the CIV.

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 when carrying out both the review in 2016 and this review has been to compare the Administering Authority's current practices (at a high level) against the Aon 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, with a number of improvements since the 2016 report. These include:

- Introduction of a new Risk Management Policy and Strategy which was recommended in the previous review
- Undertaking an independent check of its compliance with the Pension Regulator Code of Practice No.14 and findings are summarised in this report which was also previously recommended

- Improvement in the range of subjects covered in Committee papers which now include information on administration, communications, governance and funding in greater detail and with greater frequency
- Expanding the role of the Pension Committee in the Terms of Reference as contained within the Council's Constitution.

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
- Ensure that the new client engagement approach to be provided by the London CIV is agreed and put in place
- Review a number of policies which have been in place for more than three years and ensure that all relevant policies are updated to reflect pooling through the London CIV Ltd
- Reflect on the general concern raised by some members of the Pension Committee about political influence in the Committee to ensure that decisions are appropriately made and introduce a Pension Fund Conflicts of Interest Policy, with regular training
- Introduce a Pension Fund Training Policy clarifying expectations for all those involved with the governance of the Fund and consider how training needs can be assessed.

We would also wish to highlight that a number of senior officers involved in the management of the Fund have left the Administering Authority. Whilst this is a situation that we recognise can arise we would recommend that the Administering Authority consider whether some of the areas for improvement identified in this report have been impacted by a lack of resource. The Administering Authority should maintain a proactive and vigilant approach to monitoring the impact of changes in resources and the impact of increases in workload, as well as considering succession planning, to mitigate the risks on the administration and management of the scheme.

## 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

### Table of Contents

<b>1 - Introduction</b>	<b>4</b>
<b>2 - Governance Framework</b>	<b>6</b>
<b>3 - Direction – What are you trying to achieve?</b>	<b>9</b>
<b>4 - Delivery – How do you meet your aims?</b>	<b>26</b>
<b>5 - How Governance has evolved with the introduction of the London CIV</b>	<b>39</b>
<b>6 - Effectiveness Questionnaires</b>	<b>44</b>
<b>Appendix A – Reference Material</b>	<b>46</b>
<b>Appendix B – Effectiveness Questionnaire</b>	<b>47</b>

# 1 - Introduction

## Purpose and scope

We first carried out a review of the Governance of the London Borough of Croydon Pension Fund (the Fund) in early 2016. We have now been asked to carry out another review to measure the progress the Administering Authority has made over the last three years.

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 governance framework which considers areas such as the role and effectiveness of the Pension Committee and Pension Board, how the Committee takes advice and the key documents and policies that govern the Fund. This was the same approach we took when carrying out the governance review in 2016. The Aon governance framework is explained further in the next section of this report.

The review has been carried out a high level and has not involved 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 (LGPS) 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.

## Structure of this report

This report builds on information in the 2016 Governance Review (dated March 2016). This report considers those areas that were recorded as amber or red in the 2016 review to assess what progress has been made since then as well as undertaking a full assessment of any existing policies which have been updated and new policies in place since 2016. We have not reviewed the current status of any areas that were classed as green in the 2016 review. In addition, this report includes a review of the governance of asset pooling and the results of the effectiveness questionnaires. Throughout this report we highlight the findings of the 2016 report to allow for easy comparison of the progress made (where relevant).

## Research

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

- Desk-top review of key reports, strategies and policies governing the scheme that were found not to be satisfactory at the last review, any new policies or strategies and web information. The documents considered are listed in Appendix A.
- Effectiveness questionnaires were provided to key officers and all Pension Committee and Pension Board members 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.
- Informal discussions with Nigel Cook and Sam Fisher, senior officers with responsibilities for the management of the Fund, to clarify 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 Pension Board and Pension Committee for their assistance throughout this review. It has been a pleasure working with them.

We hope the information contained within this report, which builds on the earlier report dated March 2016, is useful to the Pension Board as well as to the London Borough of Croydon in considering how best to govern the Fund in the future.

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.



Table 1 – Aon governance framework

<b>Direction – What are you trying to achieve?</b>	
<b>Legislation and guidance</b>	The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.
<b>Strategies and policies</b>	<p>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:</p> <ul style="list-style-type: none"> <li>▪ should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself</li> <li>▪ should be clearly articulated, to provide a framework within which those managing the Fund are able to operate</li> <li>▪ should provide the focus for all future decisions and plans</li> <li>▪ should be agreed by those responsible for governing the Fund.</li> </ul>
<b>Delivery – How do you meet your aims?</b>	
<b>Business Planning</b>	<p>Each Fund should have a business plan, setting out required activities in the forthcoming period. Those activities:</p> <ul style="list-style-type: none"> <li>▪ should be driven by the Fund's strategies and policies</li> <li>▪ will include activities driven by changes in overriding legislation.</li> </ul>
<b>Performance Measurement</b>	<p>Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should:</p> <ul style="list-style-type: none"> <li>▪ illustrate whether the Fund's aims are being achieved</li> <li>▪ cover the full range of key areas (e.g. investments, funding, governance, communications and administration)</li> <li>▪ illustrate whether the Fund's business plan is being achieved</li> <li>▪ be updated in accordance with appropriate timescales</li> <li>▪ be presented in a manner that is easy to follow and understandable to those governing the Fund</li> <li>▪ assist in identifying changes to the Fund's business plan, strategies, policies and aims.</li> </ul>
<b>Risk Management</b>	<p>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:</p> <ul style="list-style-type: none"> <li>▪ aligned with the Fund's aims</li> <li>▪ a key consideration in decision making</li> <li>▪ systematic or structured</li> <li>▪ an integral part of the Administering Authority's processes and procedures on a daily basis.</li> </ul>

## Decisions – Do you have effective decision making?

<p>Governance structure</p>	<p>There is no one 'correct' governance structure. The Administering Authority's structure should:</p> <ul style="list-style-type: none"> <li>▪ have clear terms of reference</li> <li>▪ have a clearly documented scheme of delegation</li> <li>▪ allow decision making at the appropriate level</li> <li>▪ allow quick decision making where appropriate</li> <li>▪ include appropriate representation from stakeholders</li> <li>▪ involve well-presented information/reports</li> <li>▪ allow sufficient time for discussion where necessary</li> <li>▪ have good quality (committee) administration (e.g. issuing papers in good time)</li> <li>▪ involve a process for managing conflicts</li> <li>▪ provide transparency to stakeholders where appropriate.</li> </ul>
<p>Behaviour</p>	<p>A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should:</p> <ul style="list-style-type: none"> <li>▪ have a high level of attendance at meetings</li> <li>▪ demonstrate integrity in relation to their Fund role</li> <li>▪ be engaged and provide appropriate challenge</li> <li>▪ be accountable for the decisions made</li> <li>▪ highlight any potential conflicts they may have</li> <li>▪ for a Chairperson, manage the meetings fairly without any bias to individuals or self</li> <li>▪ prepare adequately for meetings.</li> </ul>
<p>Skills and knowledge</p>	<p>A critical element is the need for those managing the Fund to have the appropriate level of knowledge and skills. Administering Authorities should:</p> <ul style="list-style-type: none"> <li>▪ clearly articulate the knowledge and skills requirements in a Fund policy</li> <li>▪ provide ongoing training in an effective and suitable manner to meet those requirements</li> <li>▪ regularly review whether knowledge aspirations are being met</li> <li>▪ ensure they rely appropriately on officers and advisers to provide expert knowledge.</li> </ul>

Throughout this report we have included comments which we hope are useful to the Administering Authority, including the Pension Board 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 appear to 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 have considered the status of your existing policies and strategies where they were highlighted as an area of improvement (i.e. amber or red) in the 2016 governance review as well as undertaking a full assessment of any existing policies which have been updated by the Fund and new policies put in place by the Fund since 2016. The table shows the existing findings from 2016 in orange italics, and then shows in blue bold our current comments on progress since then.

When reviewing these policies and strategies, we consider 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 Pension Committee 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 as well as the Pension Board. It must therefore be clear that strategies and policies are part of Pension Committee and Pension Board business and are subject to ongoing review.

Table 2 – Strategies and policies – meeting key requirements

Key – 2016 findings / 2019 update

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<b>Funding Strategy Statement (FSS), including actuarial assessments</b>	Yes – April 2014 <b>Effective from 1 April 2017</b>	<ul style="list-style-type: none"> <li>▪ <i>LGPS Regulations</i></li> <li>▪ <i>CIPFA FSS Guidance</i></li> </ul>	<p>☑ <i>Meets requirements (but see next column regarding timescales) and also appears to follow the CIPFA guidance.</i></p> <p><i>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.</i></p>	<p>☑ <i>The FSS and actuarial valuation were considered by the Pension Committee March 2017</i></p> <p>☑ <i>It is also clear that they took appropriate advice from the actuary.</i></p> <p>⊗ <i>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.</i></p>	<p>☑ <b>The FSS has been updated in Feb 2017 and was approved by the Committee in March 2017 before the valuation was finalised. It has an effective date 1 April 2017.</b></p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<b>Investment Strategy Statement (ISS) (previously Statement of Investment Principles)</b>	<p><i>Yes - December 2015 (albeit the version on the Council's website has not been updated and is the 2012/13 version)</i></p> <p><b>Yes – March 2017 (effective from 1 April 2017)</b></p>	<ul style="list-style-type: none"> <li>▪ <i>LGPS Regulations</i></li> <li>▪ <i>MHCLG (formerly DCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement</i></li> <li>▪ <i>Compliance Statement against CIPFA guidance on the Myners Principles in the LGPS</i></li> </ul>	<p>😊 <i>Meets requirements in the Regulations.</i></p> <p>😐 <i>There is no compliance statement against the Myners Principles. Although this is no longer required by MHCLG guidance, CIPFA does continue to recommend that a statement of compliance should be developed and maintained.</i></p>	<p>😊 <i>The ISS includes information relating to Environmental, Social and Corporate Governance and outlines approach to the principles of the Stewardship Code.</i></p> <p>😊 <i>The ISS sets out how the Fund will manage its investments through including information on the London CIV.</i></p>	<p>😊 <b>A new Investment Strategy Statement replaces the Statement of Investment Principles and it appears to be in line with the new guidance.</b></p> <p>😐 <b>There continues to be no compliance statement against the Myners Principles. Although this is no longer required by MHCLG guidance, CIPFA does continue to recommend that a statement of compliance should be developed and maintained.</b></p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<b>Governance Policy and Compliance Statement</b>	<p>Yes – 2015 (no month shown but considered with annual report in September 2015)</p> <p>Yes – March 2017</p>	<ul style="list-style-type: none"> <li>LGPS Regulations</li> <li>Compliance Statement against Secretary of State guidance</li> </ul>	<p>☺ The Governance Compliance Statement provides the information that is required by the Local Government Pension Scheme Regulations 2013.</p> <p>☹ 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.</p>	<p>☹ It does not appear that the Pension Committee 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.</p>	<p>☺ The policy was reviewed in March 2017 and approved by Committee at their meeting on 7 March.</p> <p>☹ The policy refers to two appendices. Appendix B states the extent to which it complies with points in the Secretary of State's Statutory Guidance however not all points from the 2008 guidance are included.</p> <p>☹ The appendices to the Policy are not available on the Fund website and we have not seen evidence that it has been updated since 2017.</p> <p>☹ The policy needs to be updated to reflect the delegated responsibilities and governance structure relating to LGPS pooling through the London CIV.</p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<p><b>Governance Policy and Compliance Statement (Continued)</b></p>					<p>☺ The policy states it will be updated annually but we have not seen evidence of this. Adopting a less frequent period might be sensible in this regard.</p> <p>☺ Small point but the policy states that the Board approved the document in March 2017; this should refer to the Pension Committee.</p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<b>Communications Policy</b>	<p>Yes – September 2014</p> <p>Yes – June 2017</p>	<ul style="list-style-type: none"> <li>▪ <i>LGPS Regulations</i></li> </ul>	<p>😊 <i>Meets all requirements.</i></p>	<p>😞 <i>It does not appear that the Committee was specifically asked to approve this document (it was part of the annual report and no changes were specifically highlighted).</i></p>	<p>😊 <b>This policy was introduced in June 2016 and reviewed with a small amendment in June 2017. The latest version was approved by the Committee at their meeting on the 20 June 2017.</b></p> <p>😞 <b>We would expect to see reference to the risks relating to the policy and how they are managed.</b></p> <p>😞 <b>It states it will be updated annually but we have not seen evidence of this. Adopting a less frequent period might be sensible in this regard.</b></p> <p>😞 <b>Small point but reference to approval is to June 2016; the latest version was approved at June 2017 Pensions Committee.</b></p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<b>Administering Authority Discretionary Policy</b>	<i>No (albeit the employing authority's policy is available on the website)</i>	<ul style="list-style-type: none"> <li>LGPS Regulations – basic element only</li> </ul>	<p>☹️ 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.</p>	<p>😊 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 Committee 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.</p>	<p>☹️ There appears to have been no changes since the previous review. In a Board paper (January 2019) reference was made to a list of policies which are required, and this included a Policy Statement of Exercise of Discretionary Powers. It is not known if the Board agreed to focus on this policy.</p>
<b>Administration Strategy</b>	<p>Yes – January 2016</p> <p>Yes – July 2017</p>	<ul style="list-style-type: none"> <li>LGPS Regulations, (as an optional strategy)</li> </ul>	<p>😊 Meets all requirements.</p>	<p>😊 This was considered and approved at the December 2015 Pension Committee.</p>	<p>😊 No improvements were identified in 2016. However, the strategy was updated with effect from July 2017 and was approved by the committee at their meeting on 20 June 2017.</p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<b>Risk Management Policy &amp; Strategy</b>	<p><i>No</i></p> <p>Yes – December 2017</p>	<ul style="list-style-type: none"> <li>▪ <i>CIPFA Guidance</i></li> </ul>	<p>☹️ <i>Not in place.</i></p>	<p><i>N/A</i></p>	<p>😊 This policy has been produced and implemented which is positive addition following the 2016 review.</p> <p>😊 It appears to meet all requirements in relation to the CIPFA guidance.</p> <p>😊 This was considered and approved at the December 2017 Committee.</p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<p><b>Annual report and accounts</b></p>	<p><i>Yes – 2014/2015</i>  <b>Yes – 2017/2018</b></p>	<ul style="list-style-type: none"> <li>▪ <i>LGPS Regulations</i></li> <li>▪ <i>CIPFA Guidance "Preparing the Annual Report"</i></li> <li>▪ <i>CIPFA accounting guidance</i></li> </ul>	<p>😊 <i>Meets all LGPS Regulatory requirements.</i></p> <p>😬 <i>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.</i></p> <p>😊 <i>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 Pension Committee.</i></p>	<p>😊 <i>This was considered and approved at the September 2015 Pension Committee, including the associated audit report.</i></p>	<p>😊 <b>The 2017/18 accounts again do not appear to include the elements of the CIPFA annual guidance that were missing in the previous years.</b></p> <p>😊 <b>This was considered at the September 2018 Committee meeting, including the associated audit report. However, the report was noted rather than approved by the Committee.</b></p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<b>Knowledge and Skills/Training Policy</b>	<p>Yes:</p> <ul style="list-style-type: none"> <li>▪ LPB July 2015</li> <li>▪ PC 2014</li> <li>▪ PC 2010 – unable to verify</li> </ul>	<ul style="list-style-type: none"> <li>▪ CIPFA &amp; SAB</li> <li>▪ TPR Code of Practice</li> </ul>	<p>😊 It appears that all key elements are considered in relation to the Local Pension Board (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 Pension Committee meeting in 2010 and those papers are no longer publicly available.</p> <p>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</p>	<p>😊 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.</p>	<p>😊 There appears to have been no updates or changes since the previous review. This should be considered as soon as possible given it is over 3 years since the existing policies were adopted. This is a key area of interest for TPR and having the appropriate level of knowledge and skills is a legal requirement placed on Board members.</p>

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<p><b>Knowledge and Skills/Training Policy</b> <b>(Continued)</b></p>			<p><i>that this is formally approved and adopted by the Committee and Board.</i></p> <p><i>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.</i></p>		

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<p><b>Conflicts of Interest Policy</b></p>	<p>Yes:</p> <ul style="list-style-type: none"> <li>Pension Board July 2015</li> </ul>	<ul style="list-style-type: none"> <li>SAB</li> </ul> <p>Required for Pension Board only</p>	<p>😊 The Conflicts of Interest Policy for the Board appears to incorporate the key elements as expected.</p>	<p>😊 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.</p>	<p>😊 There appears to have been no updates or changes since the previous review. This should be considered as soon as possible given it is over 3 years since the existing policy was adopted.</p>

Strategy / Policy	Fund Version / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations	Progress since 2016 Review
<b>Breaches of the Law Procedure</b>	<p>Yes:</p> <ul style="list-style-type: none"> <li>Pension Board July 2015</li> </ul>	<ul style="list-style-type: none"> <li>Pensions Act 2004</li> <li>TPR Code of Practice</li> </ul>	<p>😊 The Breaches Procedure that has been put in place appears to be focussed on Local Pension Board 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.</p>	<p>😊 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.</p>	<p>😊 There appears to have been no updates or changes since the previous review.</p> <p>😊 It is not clear whether there is a system to record breaches in place and how the Committee and Board monitor breaches.</p>
<b>Employer (admission / cessation / bulk transfer) Policy</b>	<p>Yes:</p> <ul style="list-style-type: none"> <li>March 2014 (we note this policy was not reviewed as part of the 2016 review)</li> </ul>	<ul style="list-style-type: none"> <li>None- good practice only</li> </ul>	N/A		<p>😊 Although not legally required, many administering authorities have now put admission and bulk transfer policies in place to provide greater detail and expand on some of the areas in the FSS.</p> <p>😊 We suggest the “Policy for Employer leaving the Fund” is updated in line with exit credits legislation.</p>

☺ The results of the questionnaire that was completed by Pension Committee members, show that many of the members indicated concern that the Fund's strategies and policies do not articulate the Fund's objectives in the areas of administration, communication, governance, investment or funding. The results highlight that, even though there are strategies or policies in place covering most of these areas, there could be more time spent at Committee meetings considering whether the objectives, and therefore strategies, are appropriate and also how they will be delivered (please see later in the business planning section regarding this latter point). There was a particular concern noted by the Committee in respect of the area of governance and the lack of engagement relating to the objectives and strategies in place in that area.

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

Table 3 – Strategies and policies – document structure

Strategy / Policy Elements	FSS	ISS	Governance	Communications	Risk	Administration	Employer (admission / cessation / bulk transfer) Policy
<b>Introduction including any relevant legislation and guidance</b>	Yes	Yes	Yes	Yes	Yes	Yes	No policy in place
<b>The Fund's aims / objectives</b>	Yes	Yes	Yes	Yes	Yes	No	N/A
<b>Measurement / monitoring requirements</b>	Yes	Yes	No	Yes	Yes	Yes	N/A
<b>Key risks and how they are being managed / monitored</b>	Yes	Yes	No	No	Yes	No	N/A
<b>Who was consulted</b>	Yes	Yes	Included but could be clearer	No	Yes	Yes	N/A
<b>When / how it was approved</b>	Yes – implicit	Yes – implicit	Yes	Yes (but needs amending)	Yes	Yes	N/A
<b>Effective date</b>	Yes	Yes	Yes	Yes	Yes	Yes	N/A
<b>When it will next be reviewed</b>	Yes	Yes	Yes	Yes	Yes	Yes	N/A
<b>The roles and responsibilities of the key parties</b>	Yes	Included but could be clearer	Partial	No	Yes	Yes	N/A
<b>On website</b>	Yes	Yes	Yes (but not appendices)	Yes	No	Yes	N/A

😊 As you can see from the tables above, many of the policies follow good practice by incorporating these key elements. Further, almost all policies that exist are available on the Fund's website. We note that a number of policies need to be updated and we would recommend the Administering Authority develops within a business plan and the Committee and Board'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

**Progress since 2016 Report – move from 😐 neutral to 😊 good having undertaken an independent review against the Code of Practice (Improvement)**

**TPR's Code of Practice Number 14 – Governance and administration of public service pension schemes ("TPR's Code of Practice") sets out legal requirements, and standards of conduct and practice, expected from those who exercise functions in public service pension schemes. London Borough of Croydon Pension Fund should carry out regular evaluations against the Code's requirements and address areas of partial compliance and non-compliance in a timely manner.**

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 which are in addition to the LGPS regulations, CIPFA and Scheme Advisory Board guidance. 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 Local Pensions Board 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 the Pension Board as it is part of their statutory responsibility to assist in ensuring compliance with the TPR's Code of Practice.

The Pension Regulator carries out regular surveys of public service pension schemes' compliance with the Code and has stated that it expects all schemes to have assessed themselves against the law and its code of practice.

The Council has recently arranged for an independent check (using a traffic light scoring approach) of the Croydon Pension Fund's compliance with the TPR's Code of Practice. This independent check of compliance with the code demonstrates an improvement from the earlier 2016 report by ensuring a fully impartial check has been undertaken and providing a foundation for officers to build an action plan from and then carry out further regular reviews, which can be reported to both the Committee and Board.

A summary of the findings is set out below and we would recommend that a clear plan of action is identified in relation to the areas that are not compliant or partially compliant to ensure the Fund can demonstrate its compliance with the requirements of the Code:

### Summary Dashboard

A dashboard showing the summary of the results of the latest compliance checklist is shown below:

No.	Completed	Compliant
<b>Reporting Duties</b>		
A1	Fully completed	Fully compliant
A2	Fully completed	Fully compliant
A3	Fully completed	Fully compliant
A4	Fully completed	Non-compliant
<b>Knowledge and Understanding</b>		
B1	Fully completed	Partially compliant
B2	Fully completed	Partially compliant
B3	Fully completed	Partially compliant
B4	Fully completed	Fully compliant
B5	Fully completed	Fully compliant
B6	Fully completed	Fully compliant
B7	Fully completed	Non-compliant
B8	Fully completed	Partially compliant
B9	Fully completed	Fully compliant
B10	Fully completed	Fully compliant
B11	Fully completed	Partially compliant
B12	In progress	Partially compliant
<b>Conflicts of Interest</b>		
C1	Fully completed	Partially compliant
C2	Fully completed	Partially compliant
C3	Fully completed	Partially compliant
C4	Fully completed	Fully compliant
C5	Fully completed	Partially compliant
C6	Fully completed	Non-compliant
C7	Fully completed	Non-compliant
C8	Fully completed	Fully compliant
C9	Fully completed	Partially compliant
C10	Fully completed	Fully compliant
C11	Fully completed	Fully compliant
<b>Publishing Information</b>		
D1	Fully completed	Partially compliant
D2	Fully completed	Partially compliant
D3	Fully completed	Partially compliant
D4	Fully completed	Fully compliant

No.	Completed	Compliant
<b>Risk and Internal Controls</b>		
E1	Fully completed	Fully compliant
E2	Fully completed	Fully compliant
E3	Fully completed	Partially compliant
E4	Fully completed	Partially compliant
E5	Fully completed	Fully compliant
E6	Fully completed	Partially compliant
E7	Fully completed	Non-compliant
E8	Fully completed	Non-compliant
<b>Maintaining Accurate Member Data</b>		
F1	Fully completed	Fully compliant
F2	Fully completed	Fully compliant
F3	Fully completed	Partially compliant
F4	Fully completed	Fully compliant
F5	Fully completed	Fully compliant
F6	Fully completed	Fully compliant
F7	Fully completed	Fully compliant
F8	Fully completed	Fully compliant
F9	Fully completed	Partially compliant
F10	Fully completed	Fully compliant
F11	Fully completed	Fully compliant
<b>Maintaining Contributions</b>		
G1	Fully completed	Fully compliant
G2	Fully completed	Fully compliant
G3	Fully completed	Fully compliant
G4	Fully completed	Partially compliant
G5	Fully completed	Fully compliant
G6	Fully completed	Fully compliant
G7	Fully completed	Employers - Partially compliant
G8	Fully completed	Partially compliant
G9	Not yet relevant	Not yet relevant
<b>Providing Information to Members and Others</b>		
H1	Fully completed	Employers - Partially compliant
H2	Fully completed	Partially compliant
H3	Fully completed	Partially compliant
H4	Fully completed	Partially compliant
H5	Fully completed	Partially compliant
H6	Fully completed	Partially compliant

No.	Completed	Compliant
H7	Fully completed	Employers - Fully compliant
H8	Fully completed	Fully compliant
H9	Fully completed	Partially compliant
H10	Fully completed	Fully compliant
H11	Fully completed	Partially compliant
H12	Fully completed	Fully compliant
H13	Fully completed	Fully compliant
<b>Internal Dispute Resolution</b>		
I1	Fully completed	Fully compliant
I2	Fully completed	Non-compliant
I3	Fully completed	Fully compliant
I4	Fully completed	Fully compliant
I5	Fully completed	Fully compliant
I6	Fully completed	Fully compliant
I7	Fully completed	Partially compliant
I8	Fully completed	Fully compliant
I9	Fully completed	Fully compliant
<b>Reporting Breaches</b>		
J1	Fully completed	Partially compliant
J2	Fully completed	Fully compliant
J3	Fully completed	Non-compliant
<b>Scheme Advisory Board Requirements</b>		
K1	Fully completed	Fully compliant
K2	Fully completed	Fully compliant
K3	Fully completed	Partially compliant
K4	Fully completed	Partially compliant
K5	Fully completed	Partially compliant
K6	Fully completed	Partially compliant
K7	Fully completed	Non-compliant
K8	Fully completed	Partially compliant
K9	Fully completed	Fully compliant
K10	Fully completed	Partially compliant
K11	Fully completed	Fully compliant
K12	Fully completed	Non-compliant
K13	Fully completed	Partially compliant
K14	Fully completed	Non-compliant
K15	Fully completed	Fully compliant

## 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

**Progress since 2016 Report – no change remains 😊 neutral**

**TPR guidance – Setting a clear purpose and strategy is essential to managing the Fund effectively and getting good outcomes for members<sup>1</sup>**

**CIPFA guidance – A medium term business plan should be created for the pension fund**

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
- should focus on the Fund's key priorities rather than business as usual activity
- will include activities driven by changes in overriding legislation or statutory guidance.

A business plan will enable progress and performance to be monitored in relation to key priorities and provide staff, partners and customers with a clear vision for the forthcoming period of the Plan.

It is good practice for Funds to have a clear business plan which is formally approved by the Committee each year. The LGPS Myners Principles published by CIPFA explicitly states:

"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 Fund. However, some elements that would make up a business plan are undertaken, including a forward plan of both Pension Committee and Pension Board business.

The current practice however should 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

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<sup>1</sup> TPR 21<sup>st</sup> Century Trustee - <https://www.thepensionsregulator.gov.uk/en/trustees/21st-century-trusteeship/3,-d,-,-clear-purpose-and-strategy->

- Ensuring the Committee 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 Committee
- 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 Committee members with the opportunity to highlight anything they think is currently missing
- Ensuring the Committee 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 Committee 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 Committee 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.

Importantly, this lack of focus on business planning is also highlighted within the results of the questionnaire. Over half of those responding to the Pension Committee questionnaire felt that they do not get appropriately involved in agreeing the Fund's business plan and similar concerns were raised by the Pension Board. Both sets of respondents also raised concerns about not being kept up to date with progress against key tasks. We would recommend that developing a business plan, which is updated annually, should be an area of priority for the Administering Authority.

## Performance Measurement

**Progress since 2016 Report – remains 😊 (however some improvement has been made)**

**CIPFA guidance – Pension Committee, Pension Board and Senior Officers should ensure monitoring of aims and objectives and legal requirements is taking place**

**TPR guidance – Monitor progress against the Scheme's objectives and goals<sup>2</sup>**

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

<sup>2</sup> TPR 21<sup>st</sup> Century Trustee - <https://www.thepensionsregulator.gov.uk/en/trustees/21st-century-trusteeship/3,-d,-,-clear-purpose-and-strategy->

- 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, policies and aims.

In the last report we noted that investment activity is covered in detail in the Committee papers. We recommended that other areas including funding, governance, administration and communications matters are also covered during Committee meetings. There is evidence of improvement with regular inclusion of Key Performance Indicators (KPIs) covering mainly administration as well as updates on funding and governance matters.

There is scope for further improvements in areas such as making administration and communications updates a standing item on the Committee agenda and in the area of data quality for example and we recommend that the Fund continue to expand the monitoring information that is captured and shared with the Committee, ensuring it is aligned to the objectives within the administration and communications strategies. The Regulator has a clear focus on the issue of data quality setting out in the Code of Practice 14 that "schemes should have policies and processes that monitor data on an ongoing basis to ensure it is accurate and complete". More recently as part of the extended oversight of the Pensions Regulator they have been placing a lot of focus on data quality and highlighted the expectation that all public service pensions schemes should have a data improvement plan in place. The Pensions Regulator is also particularly interested in proper identification and reporting of breaches of the law, for example, where legal timescales for communicating with scheme members are missed. We recommend that the Pension Committee, Pension Board and officers consider the recent CIPFA guidance "Administration in the LGPS: a guide for pensions authorities"<sup>3</sup> which sets out information to help decision makers in the LGPS to better understand how they can oversee the delivery and quality of administration and communications within their administering authorities, with a view to identifying where improvements may be needed; this CIPFA guidance is consistent with expectations of the Pensions Regulator.

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) - it is not clear whether there is a system in place and how the Committee and Board monitor breaches.
- monitoring progress against the Fund's budget including expected income and expenditure
- monitoring of key tasks included within the annual business plan (where in place).

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 Committee 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.

In the responses to the effectiveness questionnaires:

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<sup>3</sup> Guidance is free and can be found at <https://www.cipfa.org/policy-and-guidance/reports/administration-in-the-lgps>

- over half the Pension Committee members who responded indicated they feel they do not get enough information to access if governance objectives are being met. Also, concern was raised by the Pension Committee about the clarity of objectives in the area of governance.
- over half of the Pension Committee responding say that the communications and governance strategies and policies were not brought to Committee for review sufficiently often.
- In all areas the majority of Pension Committee members indicated concern that the Fund's strategies and policies do not articulate the Fund's objectives in the areas of administration, communication, governance, investment or funding.

In our view, having clear objectives, which are agreed and regularly reviewed by the Committee, provides a robust foundation upon which regularly monitoring information can be provided, and upon which a business plan can be developed.

## Risk Management

**Progress since 2016 Report – move from 😐 neutral to 😊 good (Improvement)**

**TPR guidance – Sets out the legal requirement on an administering authority to establish and operate internal controls and expected practice on identifying and evaluating risks**

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.

It is positive to see significant improvement in this area given the requirement on the Administering Authority to identify and evaluate risks, and to establish and operate internal controls. The Fund implemented a Risk Management Policy in December 2017, this positive development is accompanied by regular reviewing of the risk register at Pension Committee and it is also considered by the Pension Board at their meetings.

The Pension Committee respondents however indicated a number of concerns relating to risk management with the majority indicating that, even though the majority of them feel they understand the Fund's risk, they do not feel sufficiently engaged in how risks are being responded to. There was also concern in the area of risk raised by the Pension Board albeit not to the same level of concern indicated from the Committee. This might suggest the need for greater time to be spent considering the Fund's key risks and understanding the options that might be available, and also ensuring that the risks associated with key decisions are given greater focus within Committee reports and presentations.

## 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 and Board) 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. In addition, we consider whether the governance structure has appropriately evolved as part of asset pooling in section 5 of the report.

### **The function of the Pension Committee**

**Progress since 2016 Report – move from  neutral to  good (Improvement)**

In the Council's constitution (section 3 – responsibility for Council functions) it sets out the function of the Committee.

The description of the role of the Pension Committee has been expanded since the last review. It now makes reference to administrative and governance matters which is a positive change. In addition, it contains a list of activity the Committee is responsible for. This is also included in part 4.N of the Constitution which sets out the Committee's Terms of Reference.

### **The function of the Local Pension Board**

**Progress since 2016 Report – no change remains  neutral**

The changes recommended in our 2016 report (as restated below) have not been made to Part 3 of the Council's Constitution.

Although not explicitly part of this review, we also note that the responsibilities of the Local Pension Board 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 Board 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 Pension Board 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.

#### **Clearly documented Scheme of Delegation**

##### **Progress since 2016 Report – no change remains neutral**

In the 2016 report we mentioned that the lack of clarity regarding delegations to officers. This remains the case with no specific mention to pensions in that section of the Council's Constitution.

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. 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**

##### **Progress since 2016 Report – one improvement but remains neutral**

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 Committee is made up of:
  - Eight London Borough of Croydon Councillors – with voting rights
  - Three (two pensioner representatives and one trade union representative) co-opted members – one of the pensioner representatives has voting rights with no voting rights for other pensioner representative or trade union representative.
- The Board is made up of:
  - Independent non-voting Chair
  - Three employer representatives
  - 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 positive to see that a co-opted pensioner representative now has voting rights on the Committee. However, the Committee still does not include any employer representative.

Further, the Pension Committee's comments in the effectiveness questionnaire appear to point to a level of concern amongst some regarding a political influence on the Committee based on the membership in place. It is important that all members of the Committee appreciate that pensions are not an Executive Function and that there is a fiduciary and public law duty in relation to scheme members that is fundamental in the decision that are being made. The arrangements in place within the Administering Authority, which are wholly legitimate, do warrant greater awareness and consideration of the potential and or perceived conflicts which may arise particularly where a member of the Committee also holds the role of Cabinet Member for Finance and Resources with the Administering Authority. We would recommend training should be provided to all members to ensure that the legal responsibilities are fully understood. This should be provided to all existing members of the Committee and the Board and should also be part of induction training for new members.

Nationally, the LGPS Scheme Advisory Board reviewed the current governance models across LGPS administering authorities and published a report in July 2019<sup>4</sup>. The Scheme Advisory Board commissioned this project to investigate the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward. Two working groups are being established by SAB to take forward the next stage of the project; one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. Although Croydon's Fund has many examples of good governance we advise that the Administering Authority considers the findings from this report and the output from the working groups in the context of the management of the London Borough of Croydon Pension Fund.

### **Good quality (Committee and Board) administration**

#### **Progress since 2016 Report – some improvements but overall remains neutral**

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

- minutes signed off as a true record by the Committee and the Board (but see comments below based on the effectiveness questionnaire findings),
- 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 have noted that there has been a number of supplemental papers issued to the Committee recently which might indicate that these reports were not available within the required five working days before the Committee. If this is the case, we would recommend investigating the reasons for this and encourage this to be minimised in the future.

 In the 2016 report we highlighted a minor area for consideration which appears to have remained the same. Each paper refers to the relevant Cabinet Member but, given this is a non-executive committee, this does not appear relevant. We also observe that the Corporate Priority/Policy Context generally always refers to Sound Financial Management which we assume is a London Borough of Croydon priority. Although this is relevant to the management of the Fund, and the comments are then expanded on from a Fund perspective, we would suggest that any reference to priorities should focus Fund priorities which can be found in the Fund's strategies, policies and its business plan (once developed).

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<sup>4</sup> LGPS SAB Good Governance Report July 2019 - <http://www.lgpsboard.org/images/PDF/GGreport.pdf>.

😊 There were positive comments from members of both the Pension Board and Pension Committee regarding recent changes in staff undertaking clerk duties and the improvements in aspects of the administration of the meetings since their arrival.

😐 There are however a number of concerns raised by the Pension Committee through the effectiveness questionnaire responses about the quality of some aspects of the administration of that Committee including:

- the majority of members who responded highlighted concerns about the quality of the Committee minutes with a number of the respondents indicating that they don't think the minutes always accurately reflect the meeting. Whilst we note that meetings are webcast, to ensure transparency we recommend that the detail of minutes is considered, and particular focus is made on capturing any significant comments or concerns raised at the meetings.
- Generally, respondents felt that the format of the papers had not improved over the last two years with more than half indicating they felt they had deteriorated. We recommend that the format of paperwork is reviewed.

😐 We noted at the June 2018 Pension Committee meeting that the appointment of the Investment Advisor to the Fund was queried by the Committee as they would have preferred that the decision to appoint the new investment advisor was brought to them prior to a decision to appoint being made. The Council's Constitution includes the following responsibility for the Pension Committee:

"To set the investment policy and review the performance of the Fund's investment managers, pooling operators, scheme administration, and external advisors"

However, the Terms of Reference for the Pension Committee does not include the delegated authority to decide on the appointments of investment advisors (or other advisors). In other Administering Authorities we have seen this explicit responsibility sits with the Pension Committee (or an Investment Sub-Committee) within the Terms of Reference.

Interestingly the Pension Board had very positive feedback in the responses to the effectiveness questionnaire regarding the area of the Board's administration.

## 😐 **Managing conflicts of interest**

### **Progress since 2016 Report – no change remains 😐 neutral**

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 during the course 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.

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. Such points are made in the recently published Scheme Advisory Report Good Governance report in which one of the recommendations is to ensure robust conflict management including clarity on roles and responsibilities<sup>5</sup> for decision makers. There may be circumstances where it is necessary for Committee 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 the stewardship of the Fund on behalf of its scheme members which may mean increases or high levels of contribution payments by employers into the Fund). This could potentially extend to

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<sup>5</sup> LGPS SAB Good Governance Report July 2019 - <http://www.lgpsboard.org/images/PDF/GGreport.pdf>.

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. Queen's Counsel opinion and the Law Commission report conclude that ultimately Committee 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, for example, even though the choice of investments can be influenced by other considerations, fund assets should be invested in the best interests of members and beneficiaries and there should not be material financial detriment as a result of those considerations. The potential for interests that could conflict with Fund matters, and this ultimate responsibility, should always be recognised and managed appropriately. A wider 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. As a minimum the Board Conflict of Interest Policy should be reviewed as it is over three years since it was adopted.

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, which are not covered by that Code, could potentially risk decision making not adhering to the overriding fiduciary responsibility in relation to the Fund
- A review of recent minutes demonstrates that the Pension Committee ask for declarations at each meeting and there have been occasions at meetings in 2018 where disclosures of interests were made. At the Pension Board disclosures of interests are covered at each meeting and there are examples in the minutes of 2017 and 2018 meetings where Board members indicated disclosures of interest. This is positive to see in action. We note that there is still no registration of interest on the Council's website in relation to the co-opted members on the Committee (which may or may not suggest declarations have not been completed).
- We suggest that consideration is given to the potential conflicts which could arise to ensure the fiduciary responsibility is not compromised and we would recommend training should be provided to all members on those responsibilities.
- In relation to the recent transfer of assets to the Fund, we note that legal advice was provided to the Committee by Eversheds and that Mr Delderfield of Eversheds was present at the Committee. We have not seen the legal advice but understand it included consideration of the Administering Authority's fiduciary responsibility and the potential conflict with the Council's interests. We also understand that Council's Monitoring Officer's advice was received to ensure decisions were made appropriately and having regard to the Committee's fiduciary responsibilities.

Positively we noted that the majority of respondents from both the Board and Committee state that they understand what a conflict of interest is and how one could arise in relation to pension fund matters albeit there were some comments from some Committee members regarding potential conflicts of interest that have arisen in decisions made by that Committee and that politics appear to have an influence on decisions. Clearly there are some positive elements in relation to the existing arrangements in particular the activity at both Committee and Board meetings. However, we continue to 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 Board 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 Board should be reviewed and, in that review, could be expanded to apply to the wider Fund management including the Committee, 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 Committee and Board members as well as Fund officers.

## Skills and knowledge

### Pension Committee

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 Pension Committee members and officers of LGPS Funds are included in the following documents:

- CIPFA Knowledge and Skills Framework – Elected representatives and non-executives in the Public Sector (2010)
- CIPFA Knowledge and Skills Framework – Public Sector Pensions Practitioners (2010)
- CIPFA Code of Practice on public sector pensions finance knowledge and skills (2013)

In 2016 CIPFA issued Investment Pooling Governance Principles for LGPS Administering Authorities and incorporated additional competencies relating to the introduction of pooling in the LGPS. These competencies (or alternatives) should be integrated into knowledge and skills policies and these competencies should be achieved and maintained going forward.

In addition, Scheme Advisory Board's Guidance and The Pensions Regulator's Code of Practice No 14, (albeit focussed on Local Pension Board 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 Committee 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.

Overall the Pension Committee members who responded to the effectiveness questionnaire felt that the Committee has the appropriate level of knowledge on Fund matter. They did however comment that more training should be focused on the needs of new members and it should be more user friendly.

### Pensions Board

The Public Service Pensions Act 2013 requires Pensions Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pensions Board.

These requirements have been incorporated and expanded on within TPR's Code of Practice 14: Governance and Administration of Public Service Pension Schemes which came into force in April 2015.

CIPFA's technical guidance for local pension board members<sup>6</sup> extended the existing knowledge and skills frameworks in place. This Framework sets the skill set to enable pension board members to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013 and explicitly incorporates the areas of administration and governance.

Given the legal requirements placed on Pension Board members relating to knowledge and understanding requirements it is pleasing to see that as a Board they all felt that it had the appropriate level of knowledge on Fund matters. They did note a preference for more external training and greater emphasis on the needs of new members but overall very positive views in this area from the Board.

### **Clearly articulated knowledge and skills requirements in a Fund policy**

#### **Progress since 2016 Report – no change remains neutral**

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 Pension Board and a document called a Training Policy which is more akin to a Training Log with a brief introduction). We therefore recommend again 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 Committee members must attend at least one 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, Committee members and Board members, effectively amalgamating the existing Pension Board policy into this so there is one single Fund policy on training.

### **Regularly review whether knowledge aspirations are being met**

#### **Progress since 2016 Report – no change remains neutral**

The latest documentation includes a Pension Committee training log (2016/17) and a Pension Board training log (2016/17). There is also reference to the requirements for a training log in the 2017/18 Annual Report but no information on training undertaken is provided. Board papers from January 2019 list the training undertaken by the Board.

The training logs still do not provide an overall assessment against the CIPFA knowledge and skills framework to allow one to understand whether Committee members have had appropriate training

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<sup>6</sup> CIPFA Guidance – Local Pension Boards: A Technical Knowledge and Skills Framework (August 2015)

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 again suggest that these points are considered as part of the implementation of the Training Policy.

As noted above the findings of the questionnaire indicates that the Pension Committee members believe that the Committee has the appropriate level of knowledge on Fund matters. However, there was some concern regarding how new members receive training that helps given the steep learning curve a new member experiences. We note in the training log it indicates that new members receive half day induction training before attending their first meeting and other external courses as part of their induction. We recommend that consideration is given as to whether members consider this sufficient or whether it should be supplemented or reviewed to ensure it is meeting new member's needs in line with the adopted CIPFA requirements. Feedback also highlighted:

- the work of the Committee is complex and robust training is welcomed
- asset pooling as area where more training is required
- the lack of access to external conferences, many of which provide excellent opportunities to develop a good level of understanding of current issues and opportunities to enhance the work of the Committee.

For the Pension Board the findings of the questionnaire indicated a positive view from that group that they had an appropriate level of knowledge on Fund matters. A couple of members' comments that where members attendance has been consistent it has resulted in a notable improvement in their knowledge and experience on Fund matters.

## 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 themes from the questionnaire completed by Pension Committee and Pension Board members.

### **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.

Given the range and volume of items needing to be covered at meetings there is always a risk that decisions are made by Pension Committee 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.

Some comments were received from Committee members in this exercise relating to apparent frustration at cross political party tension coming through as part of meetings. We would again encourage all Committee members to be mindful of their overriding fiduciary responsibility. We would recommend training on the legal responsibilities of the Committee, particularly the fiduciary responsibilities to scheme members.

The behaviour of the Board as inferred through the responses to the questionnaire overall paint a positive picture. It was also acknowledged by another member that the meetings are dominated by the same group of people. We recommend that a focus is placed on ensuring all members are encouraged to actively participate in meetings to aid the Board in its role.

Finally, feedback from some members highlight areas where more time should be spent, including focussing on the long term objectives of the Fund and how they will be achieved. There were also a small number of comments saying the Committee meetings can sometimes feel rushed. These areas should be considered further in any action plan emerging from this report.

## 5 - How Governance has evolved with the introduction of the London CIV

*In this section we consider:*

- *has the administering authority's governance structure been updated as necessary*
- *how effective is the process for making decisions relating to the CIV.*
- *is the reporting in relation to the Fund evolving effectively and does it provide the necessary information*
- *does the risk management reflect the move to the London CIV.*

This area is new for the 2019 report having not been considered for the 2016 report. Below we consider the Fund's governance arrangements have evolved to meet the needs of asset pooling with the London CIV.

### **Governance Structure and Decision Making**

The London LGPS CIV Limited (London CIV) commissioned a review of its own internal Governance and the findings of this were consulted on early in 2018. We understand that all London Borough LGPS Funds received a letter dated 13 June 2018 outlining the new governance arrangements for the London CIV. This letter summarised the key changes as:

- Creation of a Shareholder Committee of the London CIV which will act on behalf of the Shareholders as a consultative body
- Activity for that Committee will include company business plans, financial performance and topics including Responsible Investment

It is comprised of 12 Committee Members made up of 8 Local Authority Pension Committee Chairs (or Leaders of London Local Authorities), 4 Local Authority Treasurers and the Chair of the Board of London CIV. A Trade Union representative is also expected to be nominated as an observer

- Two more Non-Executive Directors will be appointed to the London CIV Board with a Local Authority Treasurer to be nominated as an observer.
- The Shareholders will meet twice each year, one General Meeting to approve the budget and the second being the Annual General Meeting (AGM).
- The arrangements in the points above replace the Pensions CIV Sectoral Joint Committee (PCSJC) which is dissolved.

These developments will require action by the Administering Authority to ensure the appropriate governance arrangements are in place. However, it is worth highlighting that the points above appear to relate more to the role of each Administering Authority as a shareholder, rather than as the Pension Fund manager and therefore the recipient of the London CIV's services.

The following section sets out our assessment of what appears in place at the moment from the evidence provided. Where evidence is not available we have highlighted this as part of the review.

We have reviewed how decisions have been made in relation to the London CIV to date, and how the governance structure has been changed to allow ongoing decision making. The table below highlights what we would expect, and the evidence we have identified.

Expectation	Croydon Council evidence
<b>Arrangements up to June 2018</b>	
1 - Agreement to enter into the London CIV as a result the business case	March 2014 Croydon Council decision
2 - Establishment of a Joint Committee or equivalent	March 2014 Croydon Council decision– includes delegation of functions necessary for proper function of the ACS Operator (including effective oversight and appointment of Directors).
3 - Agreement to become a Shareholder	March 2014 Croydon Council decision
4 - Who and how Shareholder Matters will be agreed	March 2014 Croydon Council decision – Director of Finance and Assets in consultation with Chair of the Pension Committee
5 - Who will attend London CIV Joint Committee (known as Pensions Sectoral Joint Committee) (applicable up to mid-2018)	Implicit that it is the Chair of the Pensions Committee (as part of March 2014 Croydon Council decision)
6 - By whom and how any other London CIV related decisions will be made	<p>March 2015 Pension Committee decision to delegate authority to the Assistant Chief Executive (Corporate Resources and s.151 Officer) regarding contracts and investments to meet the requirements for FCA authorisation.</p> <p>In same meeting agree that where circumstances arise and the Committee is not available for consultation, delegate to the Assistant Chief Executive (Corporate Resources and s.151 Officer) in consultation with the Pensions Committee Chair, the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Pension Fund.</p>
7 - Where ongoing oversight of the London CIV will be carried out within the Council	Not Clear
<b>Arrangements since June 2018</b>	
8 – Revoke delegation to the Pensions CIV Sectoral Joint Committee and provide written evidence to London Councils	No evidence this has taken place, and references to the existing Joint Committee is still in the Council's Constitution.

<p>9 – Agree new governance arrangements referred to in the letter from London CIV Chief Executive and London Councils Chief Executive dated 13 June 2018 including introduction of a Shareholder Committee and additional non-executive appointments and a Treasurer observer</p>	<p>No evidence this has been approved within Croydon Council</p>
<p>10 – Agree appointments to new governance bodies</p>	<p>The process for appointments appears to be via London Councils and the Society of London Treasurers. We note that London Borough of Croydon is not a member of the new Shareholder Committee but does have an alternate in place through the Pension Committee Vice-Chair.</p>

We have a number of observations in relation to this:

-  Appropriate delegations were clearly put in place at Council in March 2014 for the key responsibilities relating to the Shareholders.
-  There is no evidence that action has been taken to update the delegation from the Council to recognise the governance changes introduced by the London CIV in June 2018. Although we might have expected this to have been considered by Council, there was a delegation in March 2014 for the Director of Finance and Assets to take such steps as necessary and to act as the Shareholder, in consultation with the Chairman of the Pension Committee. We have therefore assumed that those delegations have been used to agree to the new changes.
-  The role of the Pension Committee in relation to the London CIV is referred to in the Committee's Terms of Reference where it states they will set investment policy and review the performance of the pooling operators.
-  We understand as part of the London CIV Governance Review their will be an improved framework for client services which will include a service level agreement and programme of client's events. We note some recent engagement with the CIV through training and presentations however regular updates on CIV related matters were not clear from our review. From a Pension Committee perspective, this is a critical requirement as all the governance arrangements that have been put in place so far are focussed on the role of the Shareholder, and not the role of a recipient of the services of the London CIV (i.e. ensuring that the Fund's investment strategy can be delivered). It is also key that the new arrangements, given the Administering Authority only has an alternate role on the Shareholder Committee, do not impact on the communication links the Administering Authority has with the London CIV (both the company and the governance bodies). We recommend that the Administering Authority ensures a clear approach to information sharing, from the London CIV to the Pension Committee and Pension Board, is in place.

### **Policies and Strategies**

As already mentioned earlier in the report there are a number of the Fund's policies and strategies that would benefit from review. We would recommend that you use this opportunity to review all of your policies and strategies to ensure they take account of the transition to asset pooling and your relationship as part of the London CIV.

There are a number that we would recommend need to be reviewed and updated;

- Governance Policy – there is no mention of asset pooling, such as changes to delegated responsibilities or the new governance bodies (Shareholder Committee).

- Funding Strategy Statement – some minor amendments could be made to this to incorporate the London CIV, but we consider that these can be done when it is reviewed as part as the next valuation.
- Communications Policy – This Policy should be reviewed to consider whether it would be beneficial to include mention of London CIV.

If the Administering Authority intend to create a Fund wide Conflicts and Training Policies, these should also have regard to the work with the London CIV.

### **Measures and Reporting**

 The Pensions Committee receives a quarterly investment performance report. In a presentation to the Pension Board in October 2018 we noted reference to London CIV having launched a new reporting/client portal to allow daily review. The Fund should consider how this information and the overall improved engagement framework for client services (including a service level agreement) can be built into the performance reporting the Pensions Committee consider.

 We have not been in a position to review the agreements in place between the Fund and the Investment Pool (as they are part of exempt papers). It is important that the Pension Committee satisfies itself that any arrangements agreed between the Fund and the Pool are adhered to and that requirements are being met. We would recommend some further work around the objectives of the London CIV and particular elements that were highlighted as part of the initial business case, to identify any further matters that can be more scientifically measures as key performance indicators. That being said, it is important that the Administering Authority clearly identify what areas should be provided by London CIV, rather than being developed internally with the Administering Authority.

 We suggest that the Fund clearly sets out how updates from the new Shareholder Committee are fed into the Pension Committee as well as updates from the two Annual Meetings of Shareholders which take place each year (one to set the budget and the second being the AGM).

 We would also expect the Committee to be provided with annual information relating to the expected costs of the London CIV (see below in the business planning section) and for the Committee to receive ongoing monitoring of the costs against the budget, as part of the ongoing monitoring of the Fund's budgets.

 The Pension Board are undertaking a key monitoring role by considering a progress report of London CIV activity. The progress report appears to be scheduled for each March meeting and in the March 2018 meeting we note that the Board resolved that the Chair of the Board would write to the s151 officer expressing concerns over the sovereignty of local authorities within the London CIV. We note that the forward plan indicates that for March 2019 the Board will consider a review of the saving achieved through pooling and the cost reductions achieved by the London CIV. It is positive to see that the Board also received a presentation from the Client Relations Director of the London CIV in October 2018 deepening the knowledge of the Board alongside reviewing the progress of pooling for the Fund.

### **Risk Management**

We note that the Fund's risk register includes the risks facing the fund through the transitioning of assets. This is positive to see, and we recommend this area is continually reviewed noting that in October 2018 it was stated that the risk relating to London CIV is deescalated as the London CIV is now firmly established. However, given the revised governance arrangements are still being bedded in, it is important the associated risks continue to be reviewed.

### **Business Planning**

We note earlier in this report the opportunities to review your existing business plan format and provide more depth in relation to the key tasks and priorities for the Fund. A key element of this in the next few years will be the ongoing asset pooling arrangements including:

- The continued transition of assets

- The bedding in of the new London CIV governance structure, decision making and client engagement
- The evolution of reporting of the London CIV performance and activities
- Confirmation of expected costs.

We recommend that the business plan for 2019/20 and 2020/21 highlight these and any other priorities that will require input by the Administering Authority. We would expect London CIV to have developed their own business plan, highlighting their key priorities during this period so that the Administering Authority can consider the impact this will have on them, and so that the Fund's business plan can be aligned to the plan for London CIV.

We understand that Government officers (Ministry for Housing, Communities and Local Government) met with each asset pool during the summer of 2019 that pooling guidance is expected to be issued for formal consultation in due course. The Administering Authority should ensure that it understands wider developments in relation to pooling arising from this expected national activity.

## 6 - Effectiveness Questionnaires

As part of any governance review, it is also extremely helpful to understand the views of those involved with the governance of the Fund. An effectiveness questionnaire was therefore given to all the Pension Committee members which focussed on the effectiveness of the Pension Committee. A separate questionnaire was also issued to Pension Board members relating to the effectiveness of the Pension Board.

The questionnaires considered areas such as the length of the meetings, how topics are presented, whether the members feel confident when making recommendations or decisions and how well they feel they understand risk and strategy.

The Pension Committee questionnaire was completed by only 8 persons (out of a possible 11), which was slightly disappointing, and the Board questionnaire was completed by all Board members which was positive.

The results of the questionnaire have been analysed and the results are included in Appendix B. We have also included some comment in the main body of this report, and further observations are included within this section. These tend to relate to areas where similar comments have been received from multiple people, evidencing consistency in views.

### Pension Committee

Overall the responses from the Pension Committee were positive about the level of discussion as well as the belief by the majority of respondents that the Pension Committee adds value. Also, there was a strong positive view about the level of knowledge of the Pension Committee members perhaps demonstrating the length of time many members have undertaken the role. There are a number of areas where common views were expressed and hence we suggest are considered part of any action plan arising from this report, include:

- Pension Committee respondents do not feel that they get appropriately involved in agreeing the Fund's business plan and are not kept up to date with progress against the plan.
- Concern raised that the Fund's strategies and policies do not articulate the Fund's objectives in the areas of administration, communication, governance, investment or funding. The frequency of review of the communications and governance strategies and policies were also noted, and it was felt that they did not have enough information to access if governance objectives are met.
- Belief that risk management has worsened in the last two years, noting Committee members are not feeling engaged on risk decisions for the Fund.
- Some comments on the quality of the administration of the Committee including a view that minutes do not always accurately reflect the meeting. In addition, no respondents felt that the format of papers had improved over the past 2 years.
- Some comments from the Committee regarding potential conflict of interest in decisions made by that Committee.
- A request that more training should be focused on the needs of new members and it should be more user friendly, including more training on the London CIV and more access to external events.
- Some comments relating to apparent frustration at cross political party tension coming through as part of meetings. We would again encourage all Committee members to be mindful of the fact that pensions are a non-executive function where fiduciary and legal responsibilities to the members and employers of the scheme are of paramount importance.
- There is again some concern that comments are not always taken on-board when decisions are made, and those comments are not usually included in the minutes. It is hoped that the ongoing participation by the Chair of the Board 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 Committee members.

## Pension Board

Overall the responses from Pension Board members were positive about their role on the Board and engagement at meetings and accessibility of information. The Board had very positive feedback too about the administration of the meetings with new staffing changes noted as having improved aspects of the administration of the meetings since their arrival; this was also noted by some members of the Pensions Committee. The expertise of the Chair was also highlighted, as was the fact there was a small core of consistent attendees.

There are a number of areas where common views were expressed and hence we suggest are considered as part of any action plan arising from this report, including:

- Pension Board respondents do not feel that they are appropriately aware of the Fund's business plan.
- As per the Committee, training is welcomed and could be increased, including access to external training events to expand the knowledge of the Board members.
- The behaviour of the Board as inferred through the responses to the questionnaire overall paint a positive picture although it was also acknowledged that sometimes meetings are dominated by the same group of people. We recommend that a focus is placed on ensuring all members are encouraged to actively participate in meetings to aid the Board in its role.

## Appendix A – Reference Material

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

- Investment Strategy Statement (ISS) (effective from 1 April 2017)
- Funding Strategy Statement (FSS) (effective from 1 April 2017)
- Governance Policy and Compliance Statement (March 2017)
- Communications Policy (June 2017)
- Administration Strategy Statement (July 2017)
- Constitution of the London Borough of Croydon Council (version December 2018)
  - Terms of Reference Pension Committee
  - Terms of Reference Local Pension Board
- Policy for employers leaving the Fund (March 2014)
- Cessation Policy Explanatory Guidance (March 2014)
- Risk Management Policy (December 2017)
- Pension Committee Training Log (2016)
- Pension Board Training Log (2016)
- Reporting Breaches of the Law (July 2015)
- Local Pension Board Training Policy (July 2015)
- Local Pension Board Conflict of Interest Policy (July 2015)
- Croydon Council Policy Statement of Exercise of Discretionary Powers (July 2014)
- Annual Report of the Local Pensions Board 2017/18
- TPR Compliance Self-Assessment 2019
- Actuarial valuation report as at 31 March 2016 (dated 31 March 2017)
- Pensions Board Work Programme 2018/2019
- Pensions Committee Forward Plan 2018/19
- Pensions Committee meeting papers since 7 June 2016
- All Pensions Board meeting papers since 7 July 2016
- London CIV Ltd Revised Articles of Association and Shareholders Agreement

## Appendix B – Effectiveness Questionnaire

We show below the results of the effectiveness questionnaire which was provided to all members of the Pension Committee, including co-opted members, and key officers of the Fund. Slightly disappointingly the questionnaire was completed by 8 persons (out of a possible 11). The Pension Board completed a separate questionnaire and, positively, the questionnaire was completed by all members of the Board.

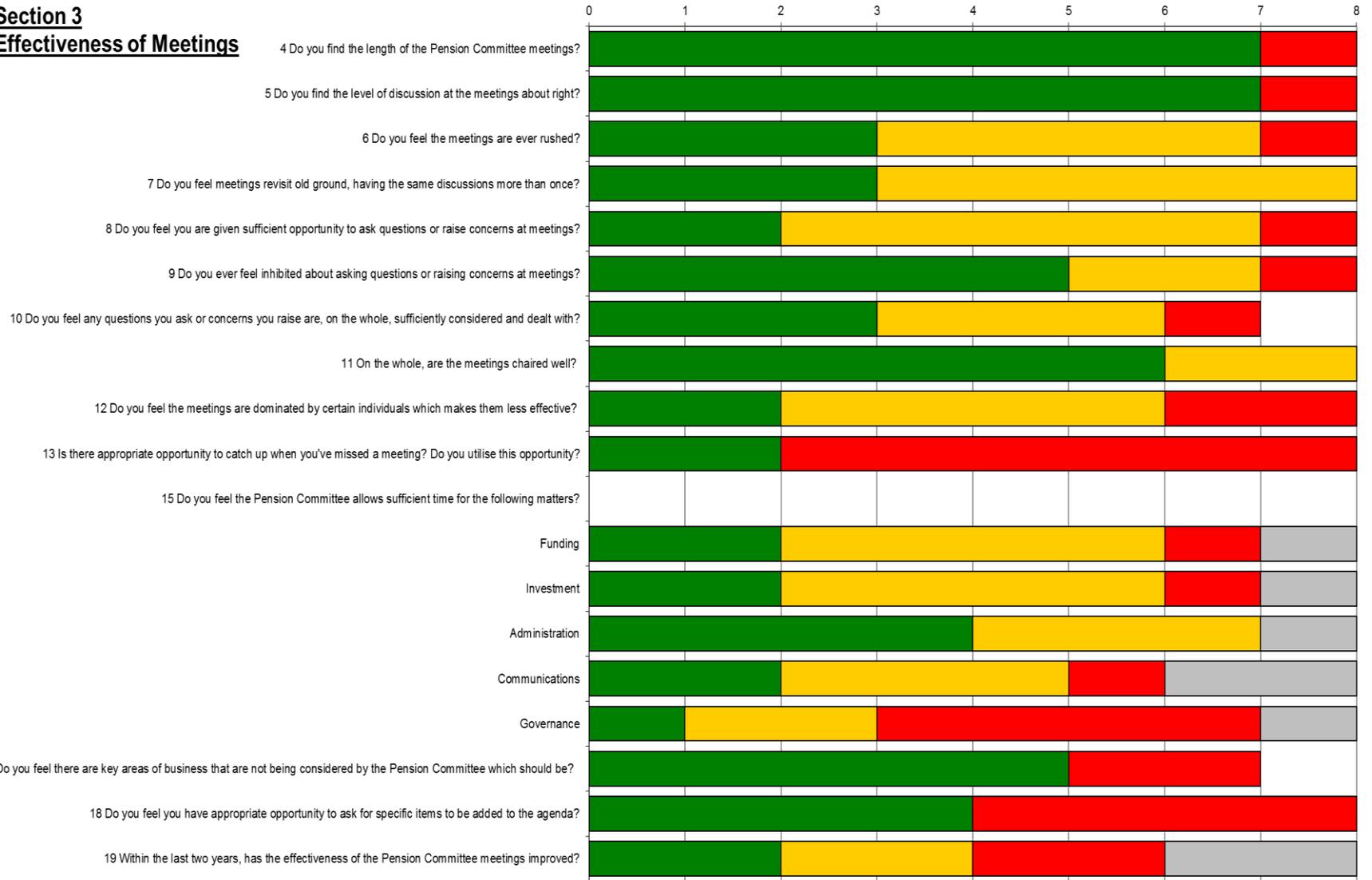
The bars in the graphs are colour coded to highlight particularly positive or negative answers. A key is provided on each page.



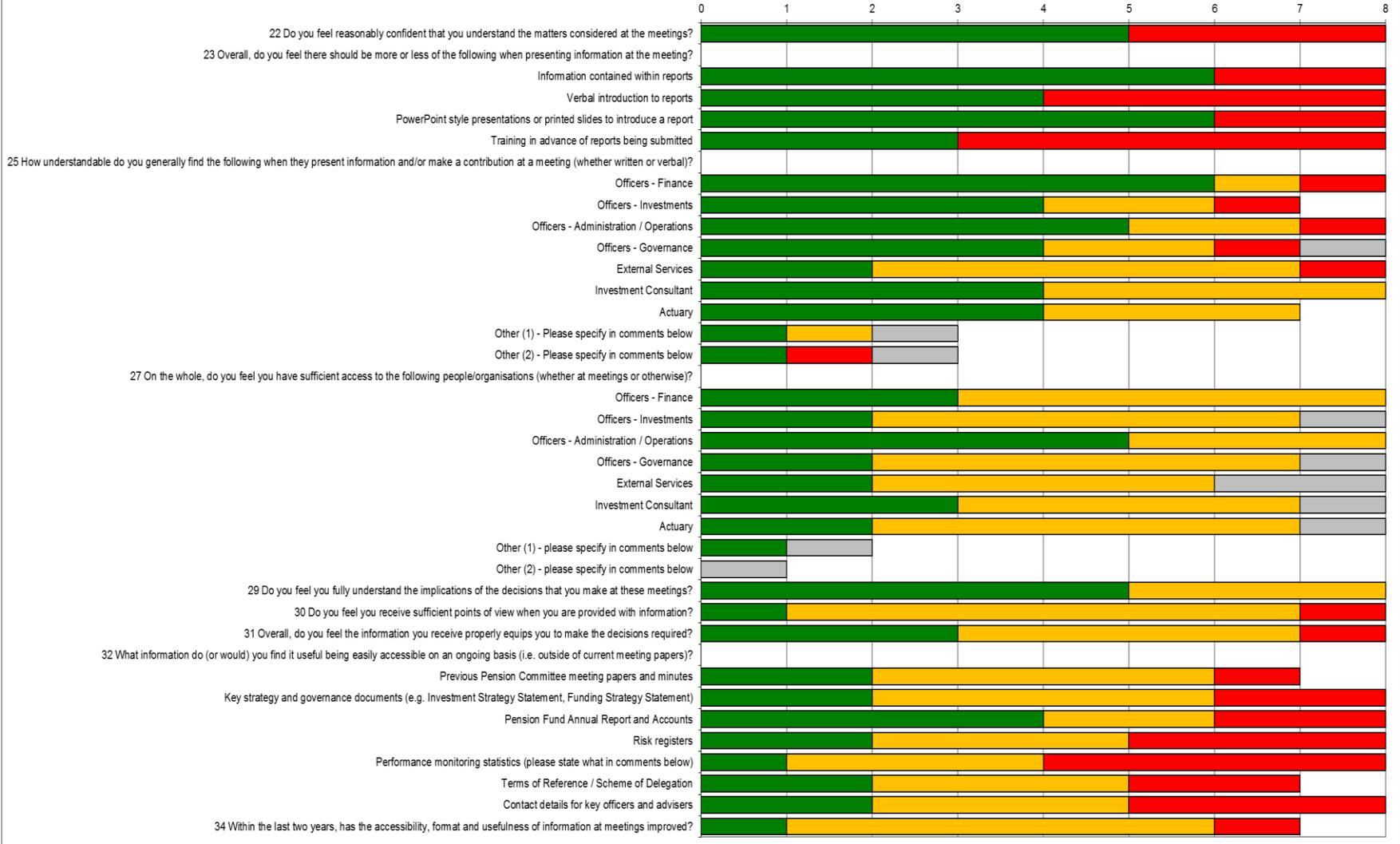
**Pensions Committee**



**Section 3  
Effectiveness of Meetings**



**Section 4**  
**Accessibility, Format and**  
**Usefulness of Information**



**Section 5 & 6**  
**Knowledge and Understanding and**  
**Administration of Meetings**



**Section 7 & 8**  
**Governance Structure and Vision**  
**for the Future**



**Section 9, 10 & 11**  
**Compliance, Business Planning**  
**Risk Mgmt and Summary**



**Pension Board Questions**





## Contact Information

### **Mary Lambe**

Senior Public Sector Consultant  
Public Sector Team  
+44 (0) 7771 678745  
[mary.lambe@aonhewitt.com](mailto:mary.lambe@aonhewitt.com)

### **Karen McWilliam**

Head of Public Sector Benefits and Governance Consultancy  
Public Sector Team  
+44 (0)7711 016707  
[karen.mcwilliam@aon.co.uk](mailto:karen.mcwilliam@aon.co.uk)

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