

Pension Committee Supplementary Agenda



To: Councillor Humayun Kabir (Chair)

Councillors Simon Brew, Jan Buttinger, Robert Canning, Clive Fraser,
Patricia Hay-Justice, Yvette Hopley and Andrew Pelling

Co-opted Members: Ms Gilli Driver, Mr Peter Howard and Charles Quaye

Reserve Members: Luke Clancy, Pat Clouder, Nina Degrad, Steve Hollands, Karen Jewitt, Caragh Skipper and Robert Ward

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 16 March 2021** at **10.00 am**. **This meeting will be held remotely.**

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

Democratic Services
Democratic.Services@croydon.gov.uk
www.croydon.gov.uk/meetings
Wednesday 10, March 2021

The meeting will be paperless. The agenda papers for all Council meetings are available on the Council website www.croydon.gov.uk/meetings

If you require any assistance, please contact the person detailed above, on the righthand side.

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Minutes of the Previous Meeting

(Report to follow)

3. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

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

a) **Exit Payment Cap** (Pages 5 - 18)

b) **Review of Breaches Log** (Pages 19 - 28)

5. Final Matters Arising from Governance Review (Pages 29 - 34)

6. Governance Policy and Compliance Statement (Pages 35 - 44)

7. Key Performance Indicators (KPIs) (Pages 45 - 48)

8. Risk Register (Pages 49 - 72)

9. **Training Records Update (Pages 73 - 80)**
10. **Progress Report - Quarter Ending 31 December 2020 (Pages 81 - 86)**
11. **Pension Board Report**
12. **Exclusion of the Press and Public**

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

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

PART B

13. **Progress Report - Quarter Ended 31 December 2020 (Pages 87 - 158)**

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REPORT TO:	PENSION COMMITTEE 16 March 2021
SUBJECT:	Exit Payment Cap
LEAD OFFICER:	Vicki Richardson Head of HR & Finance Service Centre

SUMMARY OF REPORT:

This report relates to the revocation of the Restriction of Public Sector Exit Payments Regulations 2020 and the impact on the Local Government Pension Scheme (LGPS)

POLICY CONTEXT/AMBITIOUS FOR CROYDON:

Sound Financial Management: This report updates on the government's decision to revoke the Restriction of Public Sector Exit Payments Regulations 2020 which will impact on the level of benefits paid to scheme members and employer strain costs paid when an LGPS member aged 55 or over exits the organisation..

FINANCIAL IMPACT:

This report will impact on the calculation of strain costs for early retirement.

KEY DECISION REFERENCE NO.: N/A

RECOMMENDATIONS:

The Committee is asked to note that:

- 1) On 12 February 2021, the government announced that the Restriction of Public Sector Exit Payments Regulations 2020 (Exit Cap Regulations) introduced on 4 November 2020 to cap exit payments in the public sector to a maximum of £95,000 will be revoked, and that an HM Treasury Direction would disapply the Exit Cap Regulations 2020 until revocation, removing any conflict with the LGPS regulations that arose as a result of the cap, with immediate effect from 12 February 2021;
- 2) On 25 February 2021, the Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 (Revocation Regulations) were laid before Parliament. They will come into force on 19 March 2021 and formally revoke the Cap Regulations from that date.
- 3) The administering authority will revert to using local factors supplied by the funds actuaries for calculating early retirement strain costs

1. Background

- 1.1 The Restriction of Public Sector Exit Payments Regulations 2020 (Exit Cap Regulations) implementing the £95k cap on exit payments came into force on 4th November 2020. Within the meaning of the Exit Cap Regulations an exit payment included redundancy payments (including statutory redundancy payments), severance payments, pension strain costs that arise when a Local Government Pension Scheme (LGPS) pension is paid unreduced before a member's normal pension age, and other payments made as a result of termination of employment.
- 1.2 As required changes to the LGPS regulations to comply with the £95K exit payments cap had not been implemented this created a conflict between the Exit Cap Regulations and the LGPS regulations if the cap was breached when an LGPS member aged 55 or over exited. The LGPS regulations still entitled the member to receive and required them to take immediate payment of an unreduced pension, but the Exit Cap Regulations prevented the employer from paying the full strain cost.
- 1.3 The Croydon Pension Fund (the fund), as an administering authority needed to decide how to treat the payment of benefits to members affected by the Exit Cap Regulations whilst there was a conflict in legislation. The fund also had to consider what factors to use whilst calculating strain costs.
- 1.4 At the Pension Committee held on 8 December 2020 it was decided that (Appendix A) whilst there was a conflict between the Exit Cap Regulations and the LGPS regulations the funds policy would be to:
 - i. offer scheme members the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS regulation 30(5) if the cap is breached when an LGPS member aged 55 or over exits, whilst there is a conflict between the Exit Cap Regulations and the LGPS regulations.
 - ii. adopt the factors and calculation methodology consistent with Government Actuary's Department (GAD's) draft guidance for calculating early retirement strain factors.
- 1.5 On 12 February 2021 HM Treasury (HMT) announced that after extensive review of the application of the Cap, the Government has concluded that the Cap may have had unintended consequences and the Regulations should be revoked. HMT Directions have been published that disapply the Cap with immediate effect from 12 February 2021 until the Regulations have been revoked. The guidance also confirmed that the government would revoke the exit cap regulations in due course, but that they will legislate again to tackle unjustified exit payments.
- 1.6 This announcement removed any conflict with the LGPS regulations. The LGPS scheme advisory board have advised that for exits from 12 February 2021, LGPS Administering Authorities must pay qualifying scheme members

an unreduced pension under Regulation 30(7) of the LGPS 2013 regulations. Scheme employers will be required to pay full strain costs in relation to those unreduced benefits, as notified by their administering authority. Employers should not make cash alternative payments to either the scheme member or the administering authority.

- 1.7 On 25 February 2021, the Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 (SI 2021/197) (Revocation Regulations) were laid before Parliament. They will come into force on 19 March 2021 and formally revoke the Cap Regulations from that date. The Revocation Regulations provide that anyone who received an exit payment from a relevant public sector body between 4 November 2020 and 19 March 2021 which was capped as the result of the Exit Cap Regulations will be entitled to receive an additional payment from that public sector body. The additional payment will be the difference between the amount of the payment made and the amount that would have been payable had the Exit Cap Regulations not applied. That additional payment (together with interest at 8% calculated in accordance with the Judgment Debts (Rate of Interest) Order 1993 can be paid to the person concerned, or on their behalf to a pension scheme or to another person (or to more than one of these parties).
- 1.8 Whilst there was a conflict in legislation the fund had chosen to adopt the factors and calculation methodology consistent with Government Actuary's Department (GAD's) draft guidance for calculating early retirement strain factors, as the funds actuaries have confirmed that early retirement strain factors provided to the Fund in the past used to calculate the strain charged to employers were developed to address the funding shortfall that would present itself due to paying a pension early and were never intended to impact member benefits.
- 1.9 The funds actuaries have commented that they do not believe there are any particular professional or funding reasons why the Fund must change its early retirement factors currently in place, however there are administrative and practical reasons why a reversion to the pre-November early retirement factors may be appropriate.
- 1.10 As the early retirement strain factors previously provided to the fund will no longer impact on member benefits, the fund will revert to using the early retirement strain factors provided by the actuaries for ease of administration as using GAD factors at the moment involves an "off-system" approach i.e. the use of a separate calculator which is not directly linked to the main admin system placing an additional administrative burden.
- 1.11 Should the government impose the GAD factors as part of the wider exit pay reforms in the future, the fund will need to update its processes at that time.

2. CONSULTATION

- 2.1 No consultation is required

3. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 3.1 There will impact on the level of benefits paid to scheme members and employer strain costs paid when an LGPS member aged 55 or over exits as for exits from 12 February 2021. LGPS Administering Authorities must pay qualifying scheme members an unreduced pension under Regulation 30(7) of the LGPS 2013 regulations. Scheme employers will be required to pay full strain costs in relation to those unreduced benefits, as notified by their administering authority.
- 3.2 Anyone who received an exit payment from a relevant public sector body between 4 November 2020 and 19 March 2021 which was capped as the result of the Exit Cap Regulations will be entitled to receive an additional payment from that public sector body. The additional payment will be the difference between the amount of the payment made and the amount that would have been payable had the Exit Cap Regulations not applied. That additional payment must be made together with interest at 8% calculated in accordance with the Judgment Debts (Rate of Interest) Order 1993.
- 3.3 Interest on any late LGPS benefits will only be payable where the interest provisions contained within the Local Government Pension Scheme Regulations 2013 (the “LGPS Regulations”) so require.

4. LEGAL CONSIDERATIONS

- 4.1 The Head of Litigation and Corporate Law comments on behalf of the Interim Director of Law and Governance that on 12 February 2021, the government announced that the Restriction of Public Sector Exit Payments Regulations 2020 (Exit Cap Regulations) introduced on 4 November 2020 to cap exit payments in the public sector to a maximum of £95,000 will be revoked, and that an HM Treasury Direction would disapply the Exit Cap Regulations 2020 with immediate effect from 12 February 2021. The Government also issued Guidance which states at paragraph 3.2: *‘In light of the withdrawal of the Regulations, employers are encouraged to pay to any former employees who had an exit date between 4th November 2020 and 12th February 2021 and to whom the cap was applied, the additional sums that would have paid but for the cap. Given that the cap has now been disapplied, it is open to employers to do so and HM Treasury’s expectation is that they will do so.*
- 4.2 The LGPS scheme advisory board advised that for exits from 12 February 2021, LGPS Administering Authorities must pay qualifying scheme members an unreduced pension under Regulation 30(7) of the LGPS 2013 regulations. Scheme employers will be required to pay full strain costs in relation to those unreduced benefits, as notified by their administering authority.

- 4.3 On 25 February 2021, the Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 (SI 2021/197) (Revocation Regulations) were laid before Parliament. They will come into force on 19 March 2021 and formally revoke the Cap Regulations from that date.
- 4.4 The Revocation Regulations provide that anyone who received an exit payment from a relevant public sector body between 4 November 2020 and 19 March 2021 which was capped as the result of the Exit Cap Regulations will be entitled to receive an additional payment from that public sector body. The additional payment will be the difference between the amount of the payment made and the amount that would have been payable had the Exit Cap Regulations not applied. That additional payment (together with interest at 8% calculated in accordance with the Judgment Debts (Rate of Interest) Order 1993 can be paid to the person concerned, or on their behalf to a pension scheme or to another person (or to more than one of these parties). Interest on any late LGPS benefits will be payable where the interest provisions contained within the Local Government Pension Scheme Regulations 2013 (the “LGPS Regulations”) so require.
- 4.5 Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Interim Director of Law and Governance & Deputy Monitoring Officer

5. EQUALITIES IMPACT

- 5.1 There are no equalities impacts arising from this report.

6. ENVIRONMENTAL IMPACT

- 6.1 There are no environmental impacts arising from this report.

7. CRIME AND DISORDER REDUCTION IMPACT

- 7.1 There are no crime and disorder impacts arising from this report.

8. DATA PROTECTION IMPLICATIONS

- 8.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF ‘PERSONAL DATA’?**

NO

- 8.2 **HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?**

NO

The Director of Human Resources comments that this report contains only information which can be publically disclosed.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:

Vicki Richardson, Head of HR & Finance Service Centre, Extn. 62460

APPENDICES TO THIS REPORT:

Pension Committee 8 December 2020 – [Exit Payment Cap Report](#)

BACKGROUND DOCUMENTS – LOCAL GOVERNMENT ACT 1972

None

FOR GENERAL RELEASE

REPORT TO:	PENSION COMMITTEE 8 December 2020
SUBJECT:	Exit Payment Cap
LEAD OFFICER:	Vicki Richardson Head of HR & Finance Service Centre
CABINET MEMBER:	Councillor Callton Young OBE Cabinet Member for Resources & Financial Governance
WARDS:	All

SUMMARY OF REPORT:

This report relates to the implementation of the Public Sector Exit Payments Regulations 2020 and the impact on the Local Government Pension Scheme

POLICY CONTEXT/AMBITIOUS FOR CROYDON:

Sound Financial Management: This report sets out the options available to the fund for payment of benefits whilst there is a conflict between the exit cap regulations and the LGPS regulations.

FINANCIAL IMPACT:

This report will impact on the level of benefits paid to scheme members.

KEY DECISION REFERENCE NO.: N/A

RECOMMENDATIONS:

The committee is asked to agree that whilst there is a conflict between the exit cap regulations and the LGPS regulations the funds policy will be to:

- i. offer scheme members the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS regulation 30(5) if the cap is breached when an LGPS member aged 55 or over exits, whilst there is a conflict between the exit cap regulations and the LGPS regulations.
- ii. adopt the factors and calculation methodology consistent with Government Actuary's Department (GAD's) draft guidance for calculating early retirement strain factors.

1. Background

- 1.1 The Restriction of Public Sector Exit Payments Regulations 2020 (Appendix A) implementing the £95k cap on exit payments came into force on 4th November 2020. An exit payment includes redundancy payments (including statutory redundancy payments), severance payments, pension strain costs that arise when a Local Government Pension Scheme (LGPS) pension is paid unreduced before a member's normal pension age, and other payments made as a result of termination of employment.
- 1.2 The Ministry of Housing, Communities & Local Government (MHCLG) has launched a consultation on changes to the LGPS and Discretionary Compensation Regulations (Appendix B). The consultation covers the required changes to compensation and pension regulations to comply with the £95K exit payment cap, which closes on 18 December 2020.
- 1.3 As the required changes to the LGPS regulations are still subject to consultation there is a conflict between the exit cap regulations and the LGPS regulations if the cap is breached when an LGPS member aged 55 or over exits. The LGPS regulations still entitle the member to receive and require them to take immediate payment of an unreduced pension, but the exit cap regulations prevent the employer from paying the full strain cost.
- 1.3 The Croydon Pension Fund (the fund), as an administering authority needs to decide whether to pay an unreduced pension in line with The Local Government Pension Scheme Regulations 2013 regulation 30(7) (Appendix C) or provide the option of either a deferred pension under regulation 6(1) (Appendix D) or an immediate reduced pension under regulation 30(5) in line with the Government's recommendations.
- 1.5 To assist administering authorities with this decision, the Scheme Advisory Board (SAB) has obtained legal advice (Appendix E). Following that advice the Scheme Advisory Board has expressed opinion that the course of action presenting the least risk to both LGPS administering authorities and scheme employers is for the;
 - LGPS administering authority to offer the member the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS regulation 30(5)
 - Scheme employer to delay the payment of a cash alternative under regulation 8 of the Exit Cap Regulations
- 1.6 MHCLG also wrote to LGPS administering authorities on 28 October 2020 (Appendix F) advising the recommended course of action for an administering authority to act consistently with its legal duties is that the provisions of

Regulation 30(7) are subject to the cap and so the provisions of Regulation 8 of the 2020 Regulations and Regulation 30(5) of the LGPS 2013 Regulations should be engaged. The Government's view is that LGPS members in that position should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension plus a lump sum equal to the capped strain cost.

- 1.7 The fund also needs to consider what factors to use when calculating strain costs. Until now, local factors supplied by the funds actuary have been used to calculate strain costs.

Issues

- 1.8 If the fund decides to pay an unreduced pension, there is a risk of challenge under the doctrine of implied repeal which, if successful, would result in the fund having to seek repayment of the overpaid element of the pension. The doctrine of implied repeal provides that where a piece of legislation conflicts with an earlier one, the later legislation takes precedence. This means that the fund could end up in the position of having to try and recover monies from the employer and/or the member. The fund will not be able to obtain the whole strain cost from the employer. The employer will be restricted to a maximum of £95k for all exit payments including the strain cost.
- 1.9 Offering a deferred or reduced pension also risks challenge, this time from the member seeking to enforce their rights to an unreduced pension under regulation 30(7).
- 1.10 The funds actuaries have confirmed that early retirement strain factors provided to the Fund in the past used to calculate the strain charged to employers were developed to address the funding shortfall that would present itself due to paying a pension early and were never intended to impact member benefits. They did not impact the benefits received by members and therefore they followed standard actuarial principles, also adopted in most if not all other LGPS funds, which result in:
- Them being based on the Fund's valuation funding assumptions which have an allowance for prudence built in; and
 - Strains being larger for women than men as women tend to live, on average, longer than men.

Options

Payment of Benefits

- 1.11 The options available to the fund in relation to payment of benefits whilst there is a conflict between the exit cap regulations and the LGPS regulations if the cap is breached when an LGPS member age 55 or over exits are:-

Option 1

- to pay an unreduced pension in line with The Local Government Pension Scheme Regulations 2013 regulation 30(7), which could result in breach of the Restriction of Public Sector Exit Payments Regulations and be subject to challenge under the doctrine of implied repeal which if successful would result in the fund having to seek repayment of the overpaid element of the pension.

Option 2

- to offer the member the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS regulation 30(5), which carries the risk of challenge from scheme members seeking to enforce their rights to an unreduced pension. It is noted that James Gouldie QC comments (at Appendix E) that he considers the risk of challenge to an administering authority by a capped individual seeking to enforce their rights under Regulation 30(7) of the LGPS Regulations to an immediate unreduced pension regardless of the strain costs attributable to them, is high.

Early Retirement Strain Factors

- 1.12 In order to minimise the risk of challenge from employers or members, the Fund has two options in relation to the early retirement strain factors:

Option 1

- adopt the factors and calculation methodology consistent with Government Actuary's Department (GAD's) draft guidance. The benefit of this option is that these factors are expected to apply in the future once the LGPS Regulations are updated, so the calculations would be consistent over time. However, the Fund's admin software system cannot currently carry out these calculations. The funds actuaries are able to provide a calculator to allow the fund to efficiently carry out these calculations which attracts a cost of £7k which will need to be met by the fund.

Option 2

- adopt a halfway house approach until the new LGPS Regulations come into force. With this option there would be a step change in methodology and factors at the point new LGPS Regulations and the GAD factors come into force, meaning a quote for a retirement carried out 2 days apart, could yield different strains and therefore have different impacts on member benefits. Similar to option 1, there would remain a risk the Fund's admin software system is not updated in time for the new LGPS Regulations / GAD Guidance coming into force and an 'off the system' calculator would

be required to allow the fund to efficiently carry out these calculations anyway.

Reasons for recommended options

Payment of Benefits

- 1.13 It is recommended that the fund offer scheme members the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS regulation 30(5) if the cap is breached when an LGPS member aged 55 or over exits, whilst there is a conflict between the exit cap regulations and the LGPS regulations.

Whilst there is a risk of challenge from scheme members this will negate the financial risk to the fund of having to try and recover monies from the employer and/or the member or being in a position where the employer is unable to meet the full strain costs.

This option would also negate the risk to scheme members of having made life changing decisions based on a pension that is later reduced and being in the position where the fund also needs to seek recovery of overpaid pension.

Early Retirement Strain Factors

- 1.14 It is recommended that the fund adopt the factors and calculation methodology consistent with Government Actuary's Department (GAD's) draft guidance for calculating early retirement strain factors, to ensure consistency of calculations over time.

2. CONSULTATION

- 2.1 No consultation is required

3. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 3.1 There will impact on the level of benefits paid to scheme members. The recommended option on payment of benefits minimises the risk of financial loss to the fund.

- 3.2 There will be a cost of £7k for the purchase of a calculator to enable the fund to efficiently calculate strain costs using the Government Actuary's Department (GAD's) draft guidance, the cost of which will need to be met by the fund.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S. 151 Officer

4. LEGAL CONSIDERATIONS

- 4.1 The Head of Litigation and Corporate Law comments on behalf of the Interim Director of Law and Governance that under Regulation 30(7) of the LGPS Regulations 2013 any pension paid to the member, including an entitlement to an unreduced pension, is payable by, and the responsibility of, the LGPS administering authority.

The LGPS administering authority can request a strain payment from the employer, which could be a sum which would result in a breach of the £95k cap. Under the **Restriction of Public Sector Exit Payments Regulations 2020** employers can make a strain payment up to that amount, taking into account of the value of other exit payments made to the individual.

[The letter of 28 October](#) from MHCLG Minister, Luke Hall, sent to LGPS administering authorities and local authority chief executives, set out the Government's view that the **Restriction of Public Sector Exit Payments Regulations** effectively curtail the use of LGPS Regulation 30(7) to pay an immediate unreduced pension when the cap is breached. According to this view, a 'capped' member should only receive an immediate pension under LGPS Regulation 30(5) (with actuarial reductions applied), or a deferred pension, together with a 'cash alternative' payable by the employer under Regulation 8 of the Exit Cap Regulations.

Until the LGPS Regulations are expressly amended to remove the entitlement to an unreduced pension under Regulation 30(7) the SAB opinion which is based on the legal advice it has obtained, is that the course of action presenting the least risk to both LGPS administering authorities and scheme employers is for the:

- LGPS administering authority to offer the member the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS regulation 30(5)
- Scheme employer to delay the payment of a cash alternative under regulation 8 of the Exit Cap Regulations

It is for the LGPS administering authority, (not the employer), to decide whether to pay an unreduced pension under LGPS Regulation 30(7) or a reduced pension under Regulation 30(5).

- 4.1 Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Interim Director of Law and Governance & Deputy Monitoring Officer

5. HUMAN RESOURCES IMPACT

- 5.1 The report sets out the challenges for LGPS on the best way to ensure we provide our workforce with the best advice and information, until the revised pension regulations are in force following the current consultation. As the London Borough of Croydon is about to enter into consultation on workforce reductions, the interim position must be addressed urgently.

(Approved by: Sue Moorman on behalf of the Director of Human Resources)

6. EQUALITIES IMPACT

- 6.1 There are no equalities impacts arising from this report.

7. ENVIRONMENTAL IMPACT

- 7.1 There are no environmental impacts arising from this report.

8. CRIME AND DISORDER REDUCTION IMPACT

- 8.1 There are no crime and disorder impacts arising from this report.

9. DATA PROTECTION IMPLICATIONS

- 9.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

YES/NO

(If yes, please provide brief details as to what 'personal data' will be processed and complete the next question).

(If no, please complete the sign off)

- 9.2 **HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?**

NO

The Director of Human Resources comments that this report contains only information which can be publically disclosed.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER: Vicki Richardson, Head of HR & Finance Service Centre,
Extn. 62460

BACKGROUND DOCUMENTS:

A: The Restriction of Public Sector Exit Payments Regulations 2020
https://www.legislation.gov.uk/ukxi/2020/1122/pdfs/ukxi_20201122_en.pdf

B: MHCLG consultation
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916615/Reforming_local_government_exit_pay_consultation.pdf

C: The Local Government Pension Scheme Regulations 2013 – Regulation 30
<https://www.legislation.gov.uk/ukxi/2013/2356/regulation/30/made>

D: The Local Government Pension Scheme Regulations 2013 – Regulation 6
<https://www.legislation.gov.uk/ukxi/2013/2356/regulation/6/made>

E: SAB legal advice
<https://lgpsboard.org/images/Guidance/JGSAB061020201.pdf>
<https://lgpsboard.org/images/Guidance/JGSAB20102020.pdf>

F: MHCLG letter to LGPS administering authorities dated 28 October 2020
<https://lgpsboard.org/images/PDF/letters/MHCLGtoLAs.pdf>

APPENDICES: None

Croydon Council

REPORT TO:	Pension Committee 16 March 2021
SUBJECT:	Review of Breaches Log
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund (“the Fund”).	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION

- 1.1 The Committee is asked to note the contents of the Pension Fund Breaches Log and to comment as appropriate.

2. EXECUTIVE SUMMARY

- 2.1 It is a requirement of The Pension Regulator for the Pension Fund to maintain a breaches log detailing incidences where breaches have occurred. In line with the recommendations of the Aon Hewitt Governance Review, on 15 September 2020 the Committee agreed the revised Reporting Breaches of the Law Policy. This included a requirement for the Committee to monitor breaches on a regular basis. This report presents the current log (Appendix A) for the Committee’s consideration.

3. DETAIL

- 3.1 The Pension Act 2004 (PeA 2004, s 70) imposes duties on certain persons to report breaches of the law as follows:

70 Duty to report breaches of the law

(1) Subsection (2) imposes a reporting requirement on the following persons—

(a) a trustee or manager of an occupational or personal pension scheme;

- (b) a person who is otherwise involved in the administration of such a scheme;
- (c) the employer in relation to an occupational pension scheme;
- (d) a professional adviser in relation to such a scheme;
- (e) a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

(2) Where the person has reasonable cause to believe that—

(a) a duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions,

he must give a written report of the matter to the Regulator as soon as reasonably practicable.

(3) No duty to which a person is subject is to be regarded as contravened merely because of any information or opinion contained in a written report under this section.

This is subject to section 311 (protected items).

(4) Section 10 of the Pensions Act 1995 (c. 26) (civil penalties) applies to any person who, without reasonable excuse, fails to comply with an obligation imposed on him by this section.

In line with this legislation The Pensions Regulator requires that a Breaches Log is maintained by the Fund. In their Governance Review Aon Hewitt recommended that the log was reviewed regularly by the Pension Committee. It was last reviewed on 8 December 2020. The current log is attached (Appendix A).

3.2 In this context a breach of the law is “an act of breaking or failing to observe a law, agreement, or code of conduct.” In the context of the LGPS this can encompass many aspects of the management and administration of the LGPS, including failure:

- to do anything required under the Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- to comply with policies and procedures (e.g. the Fund’s statement of investment principles, funding strategy, discretionary policies, etc.);
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;

- to issue annual benefit statements on time or non-compliance with the Code.

3.3 Since the Committee last reviewed the Log, one breach has been added in relation to the leavers benefit calculations backlog.

3.4 The Committee is asked to note the contents of the Breaches Log and to comment.

4. CONSULTATION

4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the Breaches Log which forms the basis of Appendix A .

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk,
S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Pension Committees role is to ensure the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations (“the Regulations”) all other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.

6.2 Section 70 of the Pensions Act 2004 (“the Act”) imposes a requirement on the following persons (‘reporters’) to report breaches of the law as it applies to the management and administration of the pension fund:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

6.3 The duty is to report the matter to The Pensions Regulator in writing as soon as is reasonably practicable where that person has reasonable cause to believe that:
(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to

6.4 Under the Act a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

6.5 In addition, under the Pensions Regulator's Code: Reporting breaches of the Law, the Pensions Regulator has responsibility for regulatory oversight of the governance and administration of public service pension schemes, including the Local Government Pension Scheme (LGPS). The Pensions Regulator has published guidance in the Code of Practice no 14 (Governance and administration of public service pension scheme ('the Code')). Paragraphs 241 to 275 of the Code deal with reporting breaches of the law.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance.

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS: NONE

APPENDIX:

Appendix A: Breaches Log

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Date	Category	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to the breach	Reported/Not reported (with justification if not reported and dates)	Traffic light colour	Outcome of report and or investigations	Outstanding actions	Comments
01-Oct-17	Administration Immaterial	Failure of the scheme employer (not the Council) to obtain a report from a Registered Medical Practitioner (IRMP). Failure of employer to decide whether to refer the employee to an Independent IRMP and to make a decision on their entitlement under reg 35. Failure to notify the member of any decisions made.	Failure of the employer to follow the correct procedures in relation to the LGPS has prevented timely and appropriate action under the regulations.	Member contacted the Pensions Team on 9 April 2015. Deferred benefits sent out 26 April 2017. Internal Dispute Resolution Procedure application received on 19 January 2018.	The matter was referred to the Pensions Ombudsman. No referral has been made to The Pensions Regulator.		Stage 1 complaint upheld on 1 May 2018. Compensation payment of £500.00 made 28 March 2019 for failure to notify benefits within required timescales. Stage 2 complaint upheld on 1 November 2019. Pension Ombudsman has closed the case as the member has now settled with her employer.		
Aug-19	Administration	Failure to produce 100% of Annual Benefit Statement notifications	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Error reports identified members without statements which the technical team checked. Some had not required a statement as they had not passed an increase date. The remainder had the issues resolved and statements were sent out.	the matter was not referred to the Pensions Regulator. All the issues were identified through error reports and resolved. Statements were sent to all individuals where a statement was required. No further action was needed.		Not reported. Only 3.36% for active and 2% for deferred members not issued. The issues are being addressed so that notifications can be sent.		

Aug-20	Administration	Failure to produce 100% of Annual Benefit Statement notifications	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Error reports identified members without statements which the technical team checked. There was an error suppressing ABS for members over age 65 and under NPA. The technical team issued 98.69% of the statements due. They are continuing to work on the remainder.	The matter was not referred to the Pensions Regulator. All the issues were identified through error reports and are being resolved. Statements have been or are being sent to all individuals where a statement was required.		Not reported. Only 2.12% for active and 0.27% for deferred members not issued. The issues are being addressed so that notifications can be sent.		
Jan-21	Administration	Failure to inform 100% of scheme members of their calculated benefits (refund or deferred) – backlog cases	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Historical backlog is impacting performance. Contract has now been awarded to Hymans Robertson to provide administration services to clear this backlog, which is currently in the mobilisation phase.	The issue has been identified and action taken to rectify it. Outsourcing the historical backlog leaves greater administrative capacity to calculate current cases, mitigating the risk of recurrence. This has therefore been judged as not necessary to report to the Pensions Regulator.		Not reported to The Pensions Regulator.		

Breaches Process

Type of Breach	Timescale for reporting	Internal actions	Further actions
Urgent and Material	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is reported immediately to The Pensions Regulator	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report urgent and material breaches to Section 151 officer, Chair and Vice Chair of Committee and Local Pension Board. Full report to be submitted at the next available meeting
Non urgent and Material	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is reported to the Pensions Regulator within 30 days	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report non urgent and material breach at next Pension Committee and Pension Board meeting
Immaterial	Responsible officer informs Head of Pensions and Treasury and the governance team within 30 days	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report immaterial breach at next Pension Committee and Pension Board meeting

Rating	Description	Breach occurred	Breach identified	Action taken	Decision	
	Cause, effect, reaction and wider implications considered together ARE LIKELY to be of material significance	Error has occurred	PLUS Errors not recognised	PLUS No action taken to rectify and tackle the cause	MUST Report to TPR	
	Cause, effect, reaction and wider implications considered together MAY be of material significance	Error has occurred	PLUS Errors rectified	PLUS Systemic causes not addressed so issue may arise again	MAY Report to TPR	Consider the evidence and make a decision.
	Cause, effect, reaction and wider implications considered together ARE NOT Likely to be of material significance	Error has occurred	PLUS Errors rectified	PLUS Systemic causes addressed to mitigate against issue arising again	DON'T Report to TPR	

REPORT TO:	Pension Committee 16 March 2021
SUBJECT:	Matters Arising from Governance Review Concerning the Governance Policy and Compliance Statement
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON: Sound Financial Management: Ensuring that the management of the Pension Fund (“The Fund”) is given appropriate guidance and direction through the governance of the Pension Committee.	
FINANCIAL IMPACT: There are no direct financial implications associated with this report. However, the governance of the Fund can have significant financial consequences for the Fund and, indirectly, for the Council’s Revenue Account.	

1. RECOMMENDATION

- 1.1 The Committee are invited to note this report.

2. EXECUTIVE SUMMARY

- 2.1 This report advises the Committee of action taken or being taken in respect of the recommendations on specific aspects of the Fund’s governance made by Aon Hewitt in their Governance Review received by the Committee on 11 February 2020.

3. DETAIL

Background

- 3.1 On 11 February 2020 the Committee received the final version of the Governance Review commissioned from Aon Hewitt and agreed to the implementation of the action plan attached to it (Minute 14/20 refers.)
- 3.2 This report deals with the recommendations concerning the Governance Policy and Compliance Statement.
- 3.3 During the finalisation of the Review an updated version of the Statement was agreed by the Committee on 17 September 2019. This dealt with the matters raised by Aon Hewitt specifically in connection with the Statement (Reference 1.4 of action plan).
- 3.4 However, in addition to the matters raised specifically in relation to the Statement Aon Hewitt raised further “linked” matters included in the action plan as references 10.1, 10.2 and 10.3. These matters are dealt with below.

Reference 10.1 Governance Structure – Functions of the Pensions Board

3.5 As reported by Aon Hewitt, in the Council's Constitution Part 3 (Responsibility for Functions) Section 2.7 states the responsibilities of the Pension Board to be:
The Board secures the effective and efficient governance and administration of the Croydon Council Pension Fund.

3.6 However, again as reported in the Review, Regulation 106 of The Local Government Pension Scheme Regulations 2013 states as follows:

*(1) 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.

3.7 There is clearly a difference in meaning between the two statements and the Committee are asked to note that at the next review of the Constitution the Council will be asked to agree that the current responsibilities be deleted and replaced by:

The Pension Board is responsible for assisting the Council as Administering Authority for the Local Government Pension Scheme:

(a) to secure compliance with-

(i) The Local Government Pension Scheme Regulations 2013,

(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.

3.8 The role of the Pension Board is dealt with more fully in Part 4.M, paragraph 3.1 of the Constitution. At the next review of the Constitution the Council will be asked also to agree that this paragraph be updated to reference the wording of the regulations rather than the wording of the primary statute as is currently the case.

Reference 10.2 Governance Structure – Scheme of Delegation

- 3.9 Aon Hewitt recommend that the Council:
Consider officer delegations (within Constitution and more generally) and ensure they are clearly documented.
- 3.10 Section 3 of Part 4.N of the Constitution dealing with the Pension Committee Terms of Reference was included as follows:

3. Delegations

1. Unless otherwise reserved for this Committee or Full Council by law or the Constitution, this Committee hereby delegates all Fund matters to the Executive Director Resources (Section 151 Officer). As appropriate the Executive Director Resources (Section 151 Officer) will delegate aspects of the role to other officers of the Council including the Head of Pensions and Treasury, and to professional advisors within the scope of the Regulations.

Reference 10.3 Governance Structure – London CIV

- 3.11. In their Review Aon Hewitt allocate the whole of Section 5 to “How Governance has evolved with the introduction of the London CIV.”.
- 3.12 In the agreed action plan Aon Hewitt recommend that the Council:
Update Constitution as required to reflect new London CIV governance arrangements.
- 3.13 The Council, along with all other London boroughs, is an equal shareholder of the London CIV. Its rights are exercised through a Shareholder Committee which, according to its Terms of Reference, is made up as follows:
The Committee will be comprised of 12 members from London Local Authorities made up of eight leaders (or Pension Chairs or equivalent) and four Treasurers, plus the Chair of the Board (the “Members”). The members of the Committee will be agreed by the Shareholders acting collectively and nominated for appointment by the collective political processes of the London Councils or in the case of the Treasurers by the Society of London Treasurers.
- 3.14 At the next review of the Constitution officers will consider how these arrangements can be incorporated and any outdated references removed and recommend to the Council accordingly.
- 3.15 It has also been agreed in the Action Plan that the Fund will:
Review information sharing with and from the London CIV and its governance bodies to ensure appropriate information is being provided to the officers, Pension Committee and Pension Board and there is appropriate engagement. Ensure that the new client engagement approach to be provided by the London CIV is agreed and put in place.
- 3.16 The CIV is currently actively engaging with shareholders as to the information required and the format in which it is presented. When arrangements are put in place the Committee will be advised and the level of involvement they wish to have will be agreed.

4 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 4.1 There are no financial or risk assessment considerations arising from this report.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer

5. LEGAL CONSIDERATIONS

- 5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Pension Committees role is to ensure the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations (“the Regulations”) all other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.
- 5.2 Section 5 of the Public Service Pensions Act 2013 (“the Act”) provides as follows:
- (1) Scheme regulations for a scheme under section 1 must provide for the establishment of a board with responsibility for assisting the scheme manager (or each scheme manager) in relation to the following matters.
 - (2) Those matters are—
 - (a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
 - (b) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;
 - (c) such other matters as the scheme regulations may specify.
- 5.3 The Local Government Pension Scheme Regulations 2013 (as amended) provide, in regulation 106, as follows relation to Pension Boards:
- (1) 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 scheme², 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.
- 5.4 Amendments to the Constitution as detailed within the report are a matters reserved to Full Council.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance.

6. HUMAN RESOURCES IMPACT

- 6.1 The Director of Human Resources comments that this report contains only information which can be publically disclosed.

Approved by: Sue Moorman, Director of Human Resources

7. OTHER CONSIDERATIONS

- 7.1 There are no Equalities, Environmental, Crime and Disorder Reduction considerations arising from this report

8 DATA PROTECTION IMPLICATIONS

- 8.1 Will the subject of the report involve the processing of 'personal data'?

No.

Has a data protection impact assessment (DPIA) been completed?

No. This report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Chris Buss, Acting Section 151 Officer

CONTACT OFFICER:

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

APPENDICES:

None.

BACKGROUND DOCUMENTS:

None.

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REPORT TO:	Pension Committee 16 March 2021
SUBJECT:	Governance Best Practice Compliance Statement
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON: Sound Financial Management: Ensuring that the management of the Pension Fund (“the Fund”) is given appropriate guidance and direction through the governance of the Pension Committee.	
FINANCIAL IMPACT: There are no direct financial implications associated with this report.	

1. **RECOMMENDATION**

- 1.1 The Committee are asked to review and agree the draft Governance Best Practice Compliance Statement attached as Appendix A.

2. **EXECUTIVE SUMMARY**

- 2.1 This report updates the Governance Best Practice Compliance Statement agreed by the Committee on 17 September 2019.

3 **DETAIL**

- 3.1. Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Schemes Administering Authorities to measure their governance arrangements against the standards set out in the Statutory Guidance issued by the, then, Secretary of State for Communities and Local Government. The Committee are expected to review the Governance Best Practice Compliance Statement annually.
- 3.2 The draft compliance statement included as Appendix A, sets out where the Pension fund is fully compliant with the guidance and, where it is not fully compliant, provides an explanation.
- 3.3 The Committee are asked to review and agree the attached Governance Best Practice Compliance Statement

4. **FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 4.1 There are no financial or risk assessment considerations arising from this report.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk,
S151 Officer

5. LEGAL CONSIDERATIONS

5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Pension Committees role is to ensure the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations (“the Regulations”) all other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.

5.2 Regulation 55 of the Local Government Pension Scheme Regulations 2013 provides that an administering authority must prepare a written statement setting out the following—

(a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so—

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 relating to the establishment of Local Pension Boards.

5.3 In addition, an administering authority must keep a statement prepared under paragraph (1) of Section 55 under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph and detailed in 5.2 above.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under regulation 55 , and any revised statement.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance.

6. HUMAN RESOURCES IMPACT

6.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

7. OTHER CONSIDERATIONS

- 7.1 There are no Equalities, Environmental, Crime and Disorder Reduction considerations arising from this report

8 DATA PROTECTION IMPLICATIONS

- 8.1 Will the subject of the report involve the processing of 'personal data'?

No.

Has a data protection impact assessment (DPIA) been completed?

No. This report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Chris Buss, Acting Section 151 Officer

CONTACT OFFICER:

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

APPENDICES:

Appendix A: Governance Best Practice Compliance Statement

BACKGROUND DOCUMENTS:

None.

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Governance Best Practice - Compliance Statement

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Schemes (LGPS) Administering Authorities to measure their governance arrangements against the standards set out in the Statutory Guidance issued by the, then, Secretary of State for Communities and Local Government.

The following compliance statement sets out where the Pension fund is fully compliant with the guidance and, where it is not fully compliant, provides an explanation.

Principal A - Structure

- a. The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council. *Fully compliant-Council Constitution delegates responsibility for the Pension Fund to the Pension Committee in respect of these matters*
- b. That representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioners and deferred members) are members of either the main or secondary committee to underpin the work of the main committee. *Fully compliant-Pensioner and Union representatives are appointed to the Pension Committee; representatives of the admitted bodies, academies and scheme members are appointed to the Pension Board.*
- c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. *Fully Compliant – reports on the work of the Committee are reported to the Board and vice versa; the Chair of the Board attends the Committee as an observer and, as appropriate, is invited to speak and, particularly, to report on the work of the Board.*
- d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel *Partially compliant - the Chair of the Board attends the Committee as an observer and, as appropriate, is invited to speak and, particularly, to report on the work of the Board.*

	Not Compliant		Fully Compliant
a)			✓
b)			✓
c)			✓
d)		✓	

Principle B – Committee Membership and Representation

- a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-
 - i) Employing authorities (including non-scheme employers, eg admitted bodies);
 - ii) Scheme members (including deferred and pensioner scheme members);
 - iii) Where appropriate, independent professional observers; and
 - iv) Expert advisers (on an ad-hoc basis).

Fully compliant- The Committee includes eight Councillors and employing authorities are represented at the Board; Scheme members are represented by a staff side Union representative at the Committee and by three representatives at the Board; Pensioners are represented by 2 representatives at the Committee one of whom has voting rights; an investment adviser attends all meetings of the Committee and other expert advisers are invited to attend as and when required.
- b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. *Fully Compliant- All members of both the Committee and Board are sent meeting papers ahead of meetings, are invited to training and are able to contribute fully to the decision making process.*

	Not Compliant			Fully Compliant
a)				✓
b)				✓

Principle C - Selection and role of lay members

- a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. *Fully Compliant- see Governance Policy; training sessions specifically cover these points*
- b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. *Fully Compliant- Members of the Committee declare interests at the start of each meeting.*

	Not Compliant			Fully Compliant
a)				✓
b)				✓

Principle D – Voting

- a) The policy of individual administering authority on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. *Fully Compliant-See Governance Statement Whilst one of the pensioners’ representatives and the trade union member representative do not have voting rights at the Committee, they are encouraged to participate fully in the meetings and decision making process.*

	Not Compliant		Fully Compliant
a)			✓

Principle E - Training/Facility time/Expenses

- a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process *Fully Compliant.*
- b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. *Fully compliant*
- c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. *Fully Compliant – the Council seeks to ensure that all members of both the Committee and Board are aware of the six areas of knowledge and skills relating to the LGPS which CIPFA has identified as being the core technical requirements for those involved in decision taking; they are advised of training opportunities and a log is maintained of all training undertaken.*

	Not Compliant		Fully Compliant
a)			✓
b)			✓
c)			✓

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Please see the Fund’s Training Policy

Principle F - Meetings (frequency/quorum)

- a) That an administering authority’s main committee or committees meet at least quarterly *Fully Compliant*
- b) That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. *Fully Compliant.*
- c) That an administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interest of key stakeholders can be represented. *Not applicable - Employer and scheme member interests are represented at the Pension Committee and the Pension Board.*

	Not Compliant			Fully Compliant
a)				✓
b)				✓
c)				n/a

Principle G - Access

- a) That subject to any rules in the Council’s Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee *Fully compliant- Meeting papers are dispatched to all members 5 clear working days prior to each meeting and, at the same time, published on the website.*

	Not Compliant			Fully Compliant
a)				✓

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Whilst one of the Pensioner representatives and the trade union member representative do not have voting rights, they are encouraged to fully participate in the meetings and decision making process.

Principle H - Scope

- a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. *Fully Compliant-The Committee and Board review all aspects of the Pension Fund management.*

	Not Compliant			Fully Compliant
a)				✓

Principle I - Publicity

- a) That administering authority have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. *Fully Compliant - Governance Policy and Compliance statement published in full on the Pensions website <http://www.croydonpensionscheme.org/>*

	Not Compliant			Fully Compliant
a)				✓

March 2021

To be reviewed in March 2022

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REPORT TO:	PENSION COMMITTEE 16 March 2021
SUBJECT:	Croydon Pensions Administration Team Key Performance Indicators for the Period 1 November 2020 to 31 January 2021
LEAD OFFICER:	Vicki Richardson Head of HR & Finance Service Centre
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON: Sound Financial Management: The Pension Committee is responsible for the effective administration of the Local Government Pension Scheme. These Key Performance indicators provide a measure of how well that administration functions.	
FINANCIAL IMPACT Poor administration may ultimately lead to incorrect calculation or payment of benefits or indeed financial penalties.	
1. RECOMMENDATIONS The Committee is asked to: Note the Key Performance Indicators and the performance against these indicators set out in Appendix A to this report.	

2. EXECUTIVE SUMMARY

- 2.1 This report sets out Key Performance Indicators for the administration of the Local Government Pension Scheme for the three month period up to the end of January 2021.

3. DETAIL

- 3.1 Good governance suggests that the performance of the administration of the Local Government Pension Scheme should be monitored. This report has been developed using the guidance published by CIPFA (Administration in the LGPS: A Guide for Pensions Authorities) and is reporting to the committee on the LGPS administration performance for the period 1 November 2020 to 31 January 2021. The indicators cover legal deadlines; team performance targets, case levels and take up of member self-service and the indicators and performance against these are detailed more fully in Appendix A to this report.

Commentary

- 3.2 Priority is always given to the life events that most impact scheme members which are retirements and deaths and the team is largely performing within legal deadlines in those areas.

- 3.3 There has been an extraordinary demand on the pension administration team to provide retirement estimates due to a Council wide voluntary severance scheme during December and January. Nearly 200 estimates were provided in January 2021 within target timescales, which has diverted resources away from other case types.
- 3.4 At end January 2021 there were 6170 workflow tasks outstanding which is an increase on the previous month. 56% of these outstanding tasks relate to a historical backlog of deferred benefit cases. The contract with Hymans Robertson to provide third party administration services to clear this backlog has now been signed and preparations are being made for Hyman Robertson to commence processing of these cases. It is expected that it will take 12 months for this backlog to be cleared once work commences and further updates will be provided as the project progresses.
- 3.6 We have successfully recruited to the Senior Pension Officer vacancy, attracting an experienced officer from another London Borough who will be joining us during March 2021. There is one remaining vacancy in the Pensions Administration Team for a pension support officer and recruitment is being progressed.

4. CONSULTATION

- 4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the key performance indicator report which forms the basis of Appendix A.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 5.1 There are no financial considerations arising from this report.

Approved by: Chris Buss Interim Director of Finance, Investments and Risk (Sec 151 officer)

6. LEGAL CONSIDERATIONS

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance.

7. HUMAN RESOURCES IMPACT

- 7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

The Director of Human Resources comments that this report relates to statistical information about the administration of the Local Government Pension Scheme.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:

Victoria Richardson - Head of HR & Finance Service Centre
ext. 62460.

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Croydon Pensions Admin Team Performance Report, January 2021

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REPORT TO:	Pension Committee 16 March 2021
SUBJECT:	Review of Risk Register
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund (“the Fund”).	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	
1. RECOMMENDATION	
1.1 The Committee is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.	

2. EXECUTIVE SUMMARY

2.1 It is recommended best practice for the Pension Committee to maintain a risk register covering the most significant risks faced by the Fund. This report presents the current register (Appendix A) for the Committee’s consideration.

3 DETAIL

3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording relevant risk scenarios, together with an assessment of their likelihood and impact and appropriate mitigations. This report discusses the most significant risks relating to governance, funding, assets and liabilities and operational matters. Appendix A details these risks.

3.2 The Committee is invited to comment on whether it considers this list sufficiently exhaustive and whether the assessment of each risk matches its perception on the adequacy of existing and future controls.

3.3 In accordance with the Risk Management Policy, the Risk Register is reviewed periodically and reported to the Committee on a quarterly basis.

3.4 Risks are rated on a scale of 1 (rare) to 5 (almost certain) on the likelihood of the risk occurring and its impact of 1 (insignificant) to 5 (catastrophic) if it does as shown in the matrix attached to the Log (Appendix A). This allows a range of

potential scores of between 1 and 25 by multiplying the likelihood score by the impact score. The register shows that there are 15 risks on the register with 13 being significant risks for the Fund (ie scored 12 or higher) and is attached as Appendix A to this report.

3.5 Since the Committee last reviewed the Register on 8 December 2020, one risk relating to the 95K cap has been removed due to the revocation of legislation in this regard.

3.6 The Committee is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

4. CONSULTATION

4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the Risk Register which forms the basis of Appendix A .

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Pension Committee role is to ensure the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations (“the Regulations”) all other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters. This includes ensuring compliance with the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended) and LGPS (Management and Investment of Funds) Regulations 2016

6.2 In addition, the Committee is responsible for compliance with all financial and regulatory requirements of the Fund.

6.3 The Pension Committee Terms of Reference, Part 4N of the Council’s Constitution provides at paragraph 2.3 that it shall: Discharge its fiduciary responsibility in the best interest of the Fund, in particular:
“d. To approve and monitor compliance of statutory statements and policies required under the Regulations...
f. To ensure that the Council discharges its obligation, as administering authority for the local government pension scheme, to other scheme employers...;

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Interim Director of Law and Governance.

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER

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

APPENDICES:

Appendix A: Risk Register

BACKGROUND DOCUMENTS:

None

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Pensions Risk Register

Risk Scenario	Assigned to	Existing Controls	Current Risk Rating			Future controls	Future risk rating		
			Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
Governance Risks									
If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to The Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk. The Government (MHCLG) have consulted on this issue and mitigations should reduce the potential impact of this risk.	3	3	9
Funding - Assets and Liabilities Risks									
The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. The current Strategy was agreed by the Committee on 17 March 2020.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years, although this needs to be done efficiently and in a cost effective manner. When the current valuation is completed officers will work with the Actuary to seek a cost efficient way of more frequent monitoring.	4	2	8
Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager	The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and officers monitor the cashflow carefully on a monthly basis. This cash will be invested in liquid assets to mitigate this risk.	3	3	9	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.	3	2	6
There is a possible risk of scheduled or admitted bodies not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. There is one significant case, in terms of contributions due, which is currently being considered by the Pensions Ombudsman.	3	5	15	To mitigate the risk going forward measures have been put into place to set up processes and procedures around schedules (new templates with in-built checks have been issued to employers and a checklist has been created to record receipt) and reconciling figures on a monthly basis, checking payment has been received. It will be necessary to do retrospective checks to April 2020 so it is expected that this will take some time to complete with the current resources available. However, once the new measures have been embedded, payments can be chased where necessary quickly.	3	5	15

<p>Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.</p>	<p>Head of Pensions and Treasury</p>	<p>The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years. The valuation states: For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.</p>	<p>4 3 12</p>	<p>The authority is revisiting the funding position and contribution levels during the current valuation. Initial draft results from the valuation are encouraging.</p>	<p>4 2 8</p>
Investment Risks					
<p>There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.</p>	<p>Pension Fund Investment Manager</p>	<p>The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio if it underperforms relative to expectation. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.</p>	<p>4 3 12</p>	<p>A new asset allocation strategy is currently being considered to take effect from 1 April 2020.</p>	<p>3 2 6</p>
<p>The London CIV has been experiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.</p>	<p>Head of Pensions and Treasury</p>	<p>The Fund retains the services of an external consultant to assess the efficacy of transitions. This is a backward-looking review and the Fund does not have visibility of the process when the transition is happening or when the Fund is out of the market. The fund can rely on its investment advisor to ensure ESG issues are adequately addressed. Fund launches will be carefully monitored.</p>	<p>4 3 12</p>	<p>The appointment of a new Chief Investment Officer is not likely to start until 2020/21 and until then the post will be filled by an interim.</p>	<p>4 3 12</p>
Global Macro-economic Risks					
<p>Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.</p>	<p>Pension Fund Investment Manager</p>	<p>The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.</p>	<p>4 3 12</p>	<p>A new asset allocation strategy is currently being considered to take effect from 1 April 2020. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.</p>	<p>4 3 12</p>

<p>There is still a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterious impact on the Fund.</p>	<p>Head of Pensions and Treasury</p>	<p>The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.</p>	<p>3 4 12</p>	<p>There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.</p>	<p>3 3 9</p>
<p>Coronavirus – risk to investment returns of the Pension Fund from a global financial crisis. The UK economy is in recession and European and US markets are fragile. If returns on the investment of the Pension Fund are negatively impacted long term there may not be adequate resources to meet the Fund’s liabilities. This may lead to a need to increase employer contribution rates. This impacts on Council budgets.</p>	<p>Pension Fund Investment Manager</p>	<p>The situation is being monitored by the Investment Manager and the LCIV Investment Team. While a temporary drop was experienced the market has now recovered and no long-term adverse effect is expected.</p>	<p>3 4 12</p>	<p>The current monitoring arrangements are effective and will continue going forward.</p>	<p>3 4 12</p>
<p>There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.</p>	<p>Pension Fund Investment Manager</p>	<p>Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.</p>	<p>4 3 12</p>	<p>The rebalancing has now been completed and the allocation strategy is being reviewed.</p>	<p>3 2 6</p>
<p>Operational Risks</p>					

Pensions Risk Register

	Risk Scenario	
Risk		Assigned to
Governance Risks		
1	If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager
Funding - Assets and Liabilities Risks		
2	The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury
3	Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager
4	There is a possible risk of scheduled or admitted bodies not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager

5	<p>Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.</p>	Head of Pensions and Treasury
Investment Risks		
6	<p>There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.</p>	Pension Fund Investment Manager
7	<p>The London CIV has been experiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.</p>	Head of Pensions and Treasury
Global Macro-economic Risks		

8	<p>Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.</p>	Pension Fund Investment Manager
9	<p>There is still a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterious impact on the Fund.</p>	Head of Pensions and Treasury
10	<p>Coronavirus – risk to investment returns of the Pension Fund from a global financial crisis. The UK economy is in recession and European and US markets are fragile. If returns on the investment of the Pension Fund are negatively impacted long term there may not be adequate resources to meet the Fund’s liabilities. This may lead to a need to increase employer contribution rates. This impacts on Council budgets.</p>	Pension Fund Investment Manager
11	<p>There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.</p>	Pension Fund Investment Manager

Operational Risks		
12	Cyber Security – Risk to systems including by system failure, ineffective business continuity plan and lack of adequate monitoring arrangements for third party suppliers. If adequate protections are not in place to prevent system failure working time could be affected impacting workloads and delivery of key performance indicators. If an effective business continuity plan is not in place and communicated to staff the impact of any system failure will be increased. If adequate monitor arrangements for suppliers are not implemented and reviewed service delivery may be adversely affected.	Head of Pensions Administration
13	Cyber security - risk of unauthorised access to personal and other data including by unsafe home working practices, data access protection and levels and safe storage of data. If safe working practices are not followed devices could be lost or stolen or data could be viewed or tampered with. If data access levels are not kept up to date and set at a level appropriate for the performance of the duties of the role only, any possible misuse or error will have a more severe effect. If data held on the pension system is not backed up there is a risk of data being lost in the event of a system failure.	Pensions Administration Manager
14	McCloud Judgement. There is a risk affecting our ability to implement the requirements of the McCloud judgement post resolution. Issues include lack of historic data, appropriate resource, capacity or budget to undertake the work. This could result in legal breaches reportable to the Pensions Regulator, incorrect pension entitlements being calculated for pensioners and loss of confidence in the service by scheme members and employers.	Pensions Manager

15	<p>Issuing of Section 114 Notice. There is a risk affecting the ability of the Pension Administration Team to be able to respond to the increased demand for benefit calculations. As a result of the Notice many Council services are being reviewed in order to make financial savings. This will result in large numbers of staff being made redundant. With the added uncertainty of the Council's financial situation some staff are seeking employment elsewhere so numbers of voluntary resignations could also increase. Those staff who are members of the scheme will all need benefit calculations. This will be a considerable extra workload for the team, which is currently operating with vacancies which are waiting to be filled. With the introduction of the exit cap reforms benefit calculations for staff leaving on redundancy or interests of efficiency grounds have become considerably more complex and far more time consuming to perform. The pension administration software has not been updated to incorporate the regulatory changes yet so, as an interim measure, a calculation facility will be provided by Hymans. This will be a new process and so will take time for the team to become familiar with. As in risk 15 concerning the exit payment reforms there is a risk of legal challenge from members and possible financial costs to the Fund. Lack of certainty around the regulatory requirements could lead to uncertainty around benefit calculation, resulting in inaccurate or late benefit notifications, lack of confidence in the service and legal breaches reportable to The Pensions Regulator. Increased options available to members could lead to confusion affecting their ability to make informed decisions. Increased demand on the Pension Administration Team means that there may be insufficient capacity to cope. It may be necessary to recruit additional staff which will have a financial cost. However, with the impact of McCloud and the exit payment reforms, the level of expertise required is far greater and recruiting adequate numbers of suitably experienced and able staff could be difficult; other local authorities will all be looking to recruit and they may be more attractive to possible candidates given Croydon's current financial situation in terms of the Section 114 notice.</p>	Pensions Manager
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Key

Below 10 is considered a Green Risk.

A score between 10 and 19 is an Amber Risk.

A score of 20 or above is a Red Risk.

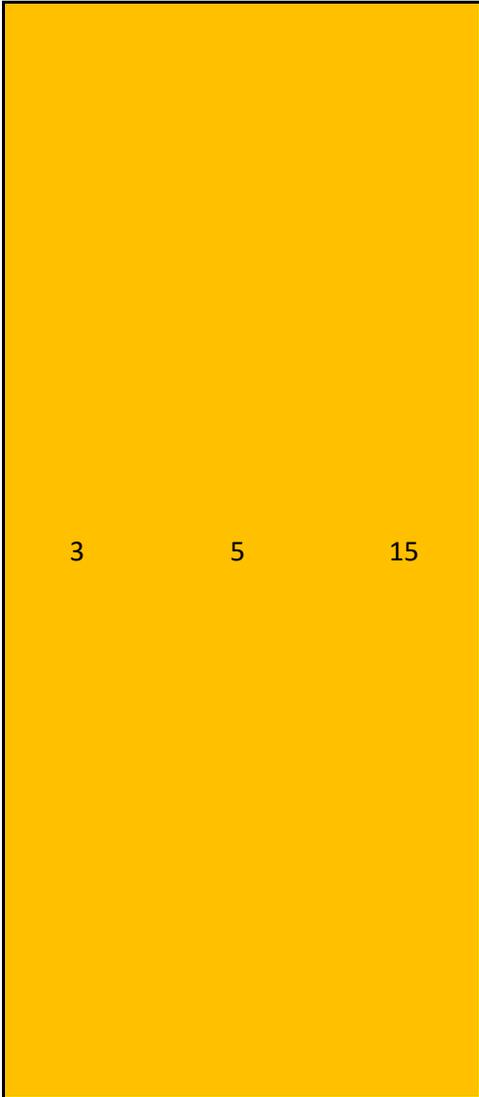
Existing Controls	Current Risk Rating		
	Impact	Likelihood	Risk factor
Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to The Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12
A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. The current Strategy was agreed by the Committee on 17 March 2020.	4	3	12
The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and officers monitor the cashflow carefully on a monthly basis. This cash will be invested in liquid assets to mitigate this risk.	3	3	9
The authority has retained legal advisors to mitigate this risk, possibly through legal channels. There is one significant case, in terms of contributions due, which is currently being considered by the Pensions Ombudsman.	3	5	15

<p>The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years. The valuation states: For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.</p>	<p>4 3 12</p>
<p>The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio if it underperforms relative to expectation. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.</p>	<p>4 3 12</p>
<p>Recruitment has inevitably been impacted by the lockdown but the CIV has now filled a number of key roles. This provides a degree of reassurance that fund launches and key projects should be able to proceed according to plan.</p>	<p>4 2 8</p>

<p>The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.</p>	<p>4 3 12</p>
<p>The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.</p>	<p>3 4 12</p>
<p>The situation is being monitored by the Investment Manager and the LCIV Investment Team. While a temporary drop was experienced the market has now recovered and no long-term adverse effect is expected.</p>	<p>3 4 12</p>
<p>Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.</p>	<p>4 3 12</p>

<p>Heywoods is a hosted system. They have processes in place for backing up files, storing data safely and preventing system failure. This is included in the contract we have with them. The technical team keep logs of issues and responses to monitor this. We have a business continuity plan in place should issues arise. Key suppliers, Aquila Heywood and Hymans Robertson both have ISO:270001 which is the international standard for information security management systems (ISMS).</p>	<p>4 3 12</p>
<ul style="list-style-type: none"> • Mandatory GDPR training has been provided to all new and existing staff. • There is a remote working protocol available on the staff intranet which includes guidance on working securely, in addition to a good practice guide on information management. • When working from home devices are encrypted and accessed via a VPN. Bit locker and passwords are required to access systems. No physical papers are taken home and staff are advised of the need to keep computers in a secure place, never to leave devices unattended and not to access systems in public locations. • Appropriate data access levels to the pensions administration system are assigned by the Technical Support Team on appointment or change of role, according to the requirements of the role. 	<p>4 3 12</p>
<p>Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department. The Technical Team are ensuring that part time hours are being recorded on Altair.</p>	<p>4 4 16</p>

Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department and our Pensions Admin Software provider, Aquila Heywood. Sourcing interim calculation software from Hymans. Recruiting staff to fill existing vacancies.



3	5	15

Impact is measured on a scale of 1 to 5.

A score of 1 suggests that the potential impact would be insignificant and a score of 5 would be significant. Likelihood is also measured on a scale of 1 to 5.

In this instance a score of 1 suggests that the occurrence will be rare and score of 5 would be a frequent occurrence.

Future controls	Future risk rating		
	Impact	Likelihood	Risk Factor
<p>The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk. The Government (MHCLG) have consulted on this issue and mitigations should reduce the potential impact of this risk.</p>	3	3	9
<p>Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years, although this needs to be done efficiently and in a cost effective manner. When the current valuation is completed officers will work with the Actuary to seek a cost efficient way of more frequent monitoring.</p>	4	2	8
<p>Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.</p>	3	2	6
<p>The templates were issued to many employers and have aided administration and checking. Receipt is recorded. The checklist has enabled the governance team to chase any missing schedules ahead of the deadline preventing late arrivals. Returns are checked to make sure the correct contribution percentages have been applied and any inconsistencies are queried. The accounts team carry out checks to reconcile payments received to payments due and any inconsistencies are investigated by the governance team. Improved communications between the teams is aiding in this process. A contributions monitoring report is being created for the Board which will report on schedules and payments received to enable more effective scrutiny. In line with this, additional data monitoring sheets have been created by the governance and accounts teams.</p> <p>These measures are improving outcomes. However, they require more time to administer and resources across the governance and accounts teams are impacted.</p>	3	5	15

<p>Equity markets are expected to remain bullish. This should continue to drive returns above the 4% target.</p>	<p>4 2 8</p>
<p>The domestic economies of most developed countries have been protected and thus have proved to be resilient and to rebound quite quickly. Although the effects of the pandemic will continue to be very difficult for emerging markets and people across the globe, the Fund is well positioned to take advantage of resurgent markets.</p>	<p>3 2 6</p>
<p>As the CIV becomes more established recruitment issues should become less significant.</p>	<p>4 2 8</p>

<p>The asset allocation strategy will be revised during 2021/2022. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.</p>	<p>4 3 12</p>
<p>There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.</p>	<p>3 3 9</p>
<p>The current monitoring arrangements are effective and will continue going forward.</p>	<p>3 4 12</p>
<p>The rebalancing has now been completed and the allocation strategy is being reviewed.</p>	<p>3 2 6</p>

<p>Communication of the business continuity plan to relevant staff could be considered</p> <p>Check with key suppliers for details of any annual security reviews/audits</p>	4	2	8
<p>Cyber security training for all staff</p>	4	2	8
<p>Resource review is currently taking place with a view to recruiting dedicated McCloud administration staff. Communications are being sent to employers outlining our requirements and templates will be issued shortly.</p>	4	3	12

Once we have clarity from central government, providing staff training and guidance, implementing temporary mechanisms for calculating benefits whilst awaiting software updates, ensuring the admin team is adequately resourced to deal with the increased complexity arising from these changes, communicating with scheme employers and reviewing the process and timescales for providing estimates.

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ie catastrophic.

almost certain to happen.

Risk Matrix

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		IMPACT				
		1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Catastrophic
5 Almost Certain		5	10	15	20	25
4 Likely		4	8	12	16	20
3 Possible		3	6	9	12	15
2 Unlikely		2	4	6	8	10
1 Rare		1	2	3	4	5

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REPORT TO:	Pension Committee 16 March 2021
SUBJECT:	Review of Committee and Board Training
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund (“the Fund”).	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	
1. RECOMMENDATION	
1.1 The Committee is asked to note the contents of the Pension Fund Training Records and to comment as appropriate.	

2. EXECUTIVE SUMMARY

- 2.1 This report advises the Committee of training undertaken since October 2020 and invites them to make suggestions for future training as they see fit.

3. DETAIL

- 3.1 In their governance review AON Hewitt recommended that the scope of the Knowledge and Skills Policy be extended to the Pensions Committee and Officers, as well as the Pensions Board. They further recommended that the policy should incorporate knowledge of the work of the London Collective Investment Vehicle (London CIV) and have regard to CIPFA guidance. The policy was agreed on 17 March 2020 (Minute 26/20)
- 3.2 Following the introduction of Markets in Financial Instruments Directive (MiFID II) in January 2018, a Fund, as a collective, must be able to demonstrate sufficient expertise, experience and knowledge to satisfy financial institutions that it is capable of making investment decisions and understanding the nature of potential risks by ensuring that levels of expertise, experience and knowledge are maintained to satisfy the MiFID II requirements.
- 3.3 All officers and Pension Committee Members charged with the financial administration and decision-making with regard to the Fund must be fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. All members and officers are expected

continually to demonstrate their personal commitment to training and to ensuring that the knowledge and skills objective is met.

3.4 The CIPFA technical guidance has a framework of eight areas of knowledge and skills identified as the core requirements:

- pensions legislation;
- pensions governance;
- pension accounting and auditing standards;
- pensions administration;
- pension services procurement and relationship management;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practice.

3.5 Members of the Committee will be asked to complete a Competency self-assessment matrix (attached as Appendix A) annually to highlight gaps in skills or areas for further development and provide details of any training undertaken. The results will be used to inform the training plan for the coming year. This will be circulated to Members for completion by 31 March 2021.

3.6 This report provides the Committee with a summary of the training undertaken since October 2020 together with details of feedback received (Appendix B). A total of 21.50 hours training has been made available to the Board and Committee for each member to 28 February 2021. Board Members have attended 12 sessions and Committee Members have attended 14 sessions. The percentage uptake, excluding the Pensions Regulator Toolkit, is 25.49% for Board members and 9.8% for Committee members.

3.7 This report provides the Committee with a summary of the training undertaken since October 2020 (attached as Appendix B).

4. CONSULTATION

4.1 The Knowledge and Skills Training Policy has been agreed by Committee. This is reviewed every 3 years by the Pension Committee.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Pension Committees Terms of Reference (London Borough of Croydon's Constitution Part 4.N) Paragraph 7. **Knowledge and Understanding** provides that: *Members of the Committee are expected to continually demonstrate their own personal commitment to training and to ensure that governance objectives are met. To assist in achieving these objectives training sessions will be organised to ensure Committee members are familiar with the rules of the Fund with relevant legislation.*

6.2 In addition, similar training and knowledge obligations are placed on the Local Pension Board members ("LPB Members") as detailed in Part 4 M of the Constitution which provides, among other matters, that both Employer and Employee representatives participate in training as and when required. In addition, section 12 of Part 4M specifically deals with training requirements and provides as follows:

"12.1. Employer and Member Representatives (including substitutes) of the LPB must be conversant with – a. The legislation, Scheme Regulations and associated guidance of the LGPS; b. Any document recording policy about the administration of the LGPS (which is for the time being adopted by the Fund).

12.2. All members of the LPB must have a working knowledge and understanding of:

- a. The law relating to pensions, and
- b. Any other matters which are prescribed in Scheme Regulations.

12.3. It is for the Scheme Manager to be satisfied that those seeking to be appointed have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the LPB.

12.4. In line with the duties under their role, the LPB members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date on anything that would fall within the remit of their role. LPB members are therefore required to maintain a written record of all relevant training and development (whether internal or external) they have undertaken. In the event that LPB members wish to attend an external course/training event prior approval must be sought from the Scheme Manager. All information in relation to training and development of all LPB members shall be made available to the Board as part of the Board Review Process. In addition, the Scheme Manager may, at any time request to inspect such records upon providing the relevant member with a written request which must be adhered to within 7 days of receipt of such a request. 1

2.5. All LPB members will undertake an annual personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses as well as mandatory training that the Board or Scheme Manager considers is required to ensure the Board operates as effectively as possible. LPB members will comply with the Scheme Manager's training policy, details of which are found in the separate document titled "Local Pension Board Training Policy".

Approved by: Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance.

7. HUMAN RESOURCES IMPACT

- 7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Sue Moorman, Director of Human Resources

8. EQUALITIES IMPACT

- 8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

- 9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

- 10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

- 11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

APPENDICES:

Appendix A: Competency self-assessment matrix
Appendix B: Training summary

Name	
Date	

Category	Area of knowledge	Rating	1 No knowledge, 5 Highly skilled
		1/2/3/4/5	
1 Pensions Legislation	A general understanding of the pensions legislative framework in the UK.	0	
2 Pensions Legislation	An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	0	
3 Pensions Legislation	An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	0	
4 Pensions Legislation	A regularly updated appreciation of the latest changes to the scheme rules.	0	
5 Pensions Governance	Knowledge of the role of the administering authority in relation to the LGPS.	0	
6 Pensions Governance	An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	0	
7 Pensions Governance	Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	0	
8 Pensions Governance	A broad understanding of the role of pension fund committees in relation to the fund, the administering authority, employing authorities, scheme members and taxpayers.	0	
9 Pensions Governance	An awareness of the role and statutory responsibilities of the treasurer and monitoring officer.	0	
10 Pensions Governance	Knowledge of the Myrers principles and associated CIPFA and SOLACE guidance.	0	
11 Pensions Governance	A detailed knowledge of the duties and responsibilities of pension board members.	0	
12 Pensions Governance	Knowledge of the stakeholders of the pension fund and the nature of their interests.	0	
13 Pensions Governance	Knowledge of consultation, communication and involvement options relevant to the stakeholders.	0	
14 Pensions Governance	Knowledge of how pension fund management risk is monitored and managed.	0	
15 Pensions Governance	An understanding of how conflicts of interest are identified and managed.	0	
16 Pensions Governance	An understanding of how breaches in law are reported.	0	
17 Pensions administration	An understanding of best practice in pensions administration eg performance and cost measures.	0	
18 Pensions administration	Understanding of the required and adopted scheme policies and procedures relating to member data maintenance and record-keeping processes, internal dispute resolution, contributions collection, scheme communication and materials.	0	
19 Pensions administration	Knowledge of how discretionary powers operate.	0	
20 Pensions administration	Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).	0	
21 Pensions administration	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	0	
22 Pensions administration	An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.	0	
23 Pensions accounting and auditing standards	An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	0	
24 Pensions accounting and auditing standards	An understanding of the role of both internal and external audit in the governance and assurance process.	0	
25 Pensions accounting and auditing standards	An understanding of the role played by third party assurance providers.	0	
26 Pensions services procurement and relationship management	An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.	0	
27 Pensions services procurement and relationship management	A general understanding of the main public procurement requirements of UK and EU legislation.	0	
28 Pensions services procurement and relationship management	An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	0	
29 Pensions services procurement and relationship management	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.	0	
30 Investment performance and risk management	An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	0	
31 Investment performance and risk management	An awareness of the Myrers principles of performance management and the approach adopted by the administering authority.	0	
32 Investment performance and risk management	Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	0	
33 Financial Markets and products knowledge	Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).	0	
34 Financial Markets and products knowledge	Understanding of the role of these asset classes in long-term pension fund investing.	0	
35 Financial Markets and products knowledge	Understanding of the primary importance of the investment strategy decision.	0	
36 Financial Markets and products knowledge	A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.	0	
37 Financial Markets and products knowledge	An awareness of the limits placed by regulation on the investment activities of local government pension funds.	0	
38 Actuarial methods, standards and practice	Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.	0	
39 Actuarial methods, standards and practice	Awareness of the importance of monitoring early and ill health retirement strain costs.	0	
40 Actuarial methods, standards and practice		0	
41 Actuarial methods, standards and practice	A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.	0	
	A general awareness of the relevant considerations in relation to outsourcing and bulk transfers.	0	
		0	

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Training Attendance

Board / Com	Name	Event	Date	Duration	Effectiveness of Training	
					Rate 1 (poor) to 5 (excellent)	Feedback
B	Mike Ellsmore	McCloud update CIPFA	05/11/20	1 HR		4 None given
B	Mike Ellsmore	Cyber Security -AON	19/11/20	1 HR		To Be Advised
CR	Robert Ward	Cyber Security -AON	19/11/20	1 HR		4 Good entry level course. Timely warning on the threat of cyber crime.
B	Richard Elliott	Cyber Security -AON	19/11/20	1 HR		5 While accepting that one of the event's motives was no doubt to generate demand for one of Aon's services, it very clearly set out the issues and concerns in this potentially dangerous and tricky area, and provided tools to help schemes assess how well prepared they were in this area.
C	Cllr Humayan Kabir	Cyber Security -AON	19/11/20	1 HR		To Be Advised
B	Mike Ellsmore	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
C	Cllr Humayan Kabir	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
C	Cllr Clive Fraser	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
C	Cllr Patricia hay justice	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
C	Cllr Robert Canning	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		4 An informative update on some of the key factors and changes affecting local government pensions and what it means for Croydon. This type of update should be provided to the committee on a regular basis (probably at least once a year). I found this training event was also succinct, pitched at the right level and well-presented.
C	Charles Quaye	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
C	Gilli Driver	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
C	Cllr Yvette Hopley	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		5 Clear and concise information – good interaction regarding questions.
CR	Cllr Pat Clouder	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
CR	Cllr Robert Ward	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		4 None given
C	Cllr Simon Brew	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		4 It's useful to keep in touch with current issues, in the absence of live meetings
B	David Wickman	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
CR	Cllr Nina Degras	Hymans - Funding, risk and regulatory updates	08/12/20	1 HR		To Be Advised
B	Mike Ellsmore	McCloud Presentation	15/10/20	1 HR		To Be Advised
B	Richard Elliott	McCloud Presentation	15/10/20	1 HR		To Be Advised
B	Teresa Fritz	McCloud Presentation	15/10/20	1 HR		To Be Advised
B	Cllr Andrew Pelling	McCloud Presentation	15/10/20	1 HR	None given	I think it was a bit too basic.
B	Daniel Pyke	McCloud Presentation	15/10/20	1 HR		5 None given
B	David Whickman	McCloud Presentation	15/10/20	1 HR		To Be Advised
C	Cllr Humayan Kabir	LGA Webinar - LGPS update	26/01/21	2 HRS		To Be Advised
B	Richard Elliott	LGA Webinar - LGPS update	26/01/21	2 HRS		4 Section on responsible investment (first part) rather heavy on acronyms and initials. Section on ESG (second half) could have been a bit shorter
B	Richard Elliott	CIPFA McCloud Implementation Workshop	19/08/20	3 HRS		4 Generally very worthwhile, though probably didn't need 3 hours and two breakout sessions.

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REPORT TO:	PENSION COMMITTEE 16 March 2021
SUBJECT:	Progress Report for Quarter Ended 31 December 2020
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.</p>	
FINANCIAL SUMMARY:	
<p>This report shows that the market value of the Pension Fund (the Fund) investments as at 31 December 2020 was £1,489m compared to £1,402m at 30 September 2020, an increase of £87m and a return of 5.8% over the quarter. The performance figures, Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor Mercer.</p>	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1	RECOMMENDATIONS
1.1	The Committee is asked to note the performance of the fund for the quarter.

2 EXECUTIVE SUMMARY

- 2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 31 December 2020. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied, specifically current and planned investments. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report.

3 DETAIL

Section 1: Performance

- 3.1 The 2019 Triennial Actuarial Valuation showed a whole of fund funding position of 88% using a future investment return assumption (otherwise described as the discount rate) of 4.0% p.a. The Fund would be 100% funded if an assumed investment return of 4.8% p.a. is used. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a

higher return than as calculated in the valuation and on the basis that other assumptions remain constant, the funding gap will close.

- 3.2 Since the valuation date the Fund has returned 17.3% against an assumed return of 7.1%. This has had a positive impact on the funding level.
- 3.3 Details of the performance of individual components of the portfolio are detailed in the report produced by the Fund's investment advisors in Appendix A of the part B report.

Section 2: Asset Allocation Strategy

- 3.4 The current asset allocation strategy was approved at the Committee meeting held on 17 March 2020 (Minute 24/20 refers). The portfolio now reflects the proportions described in that strategy, allowing for the vagaries of the market.
- 3.5 The target portfolio can be broken down as follows:

Asset Class		Target Allocation	Allowable Tolerance
Equities including allocation to emerging markets.		40%	+/- 5%
Fixed interest		20%	+/- 5%
Alternates		40%	+/- 5%
<i>Comprised of:</i>			
Private Equity	10%		
Infrastructure	14%		
Property (Commercial & Residential)	16%		
Cash			
Total		100%	

3.6 Monitoring of asset allocation

3.6.1 **Global Equity** – The Global Equity portfolio continued to be the main contributor to the positive performance of over the quarter. The LGIM Developed World (ex-Tobacco) Equity fund returned 10.3% and the LCIV Sustainable Equity Exclusion Fund RBC returned 11.8%.over the quarter giving a combined return of 10.4%. The hedged element of the LGIM Developed World (ex-Tobacco) Equity fund continues to have a positive impact on the performance of the Fund. As at 31 December 2020 the Fund's allocation to global equities stood at 44.5% which is a slight increase from the previous quarter, but remains within the target range.

- 3.6.2 **Fixed Interest** – During the quarter the returns of the three fixed interest managers were all positive and returned an overall 2.4%. At 21.2% the allocation to this asset class remains well within the tolerance agreed for the target allocation of the Fund.
- 3.6.3 **Infrastructure** – Due to the nature of the assets performance of Infrastructure investments and indeed Private Equity, discussed in more detail below, is better measured over a period of time, rather than on a quarter by quarter basis. The timing of receipt of valuations and production of this report means that the majority of the valuations have a 3 month time lag and so the performance for the quarter appears flat. However, it is worth noting that the Access fund is denominated in Euros and I Squared is in US dollars, and so the performance of these funds is adversely effected

when Sterling strengthens. Over the quarter Sterling gained 1.3% against the Euro and 5.7% against the US Dollar. Over the long term the effects of currency movements should be largely negated due to the recycling of distributions into the future generation of new Funds. Also worth noting is the Equitix portfolio was adversely effected by the Equitix Energy Efficiency fund. The asset allocation is at 11.9% and is moving towards the target allocation of 14% as the Funds move through their investment periods.

- 3.6.4 **Private Equity** – Private Equity showed strong positive return over the quarter, this despite adverse currency movements as the Funds are denominated in either Euros or US dollars. This part of the portfolio was maintained at 8.8% of the Fund which is slightly under the target allocation of 10%.
- 3.6.5 **Traditional Property** – The Fund's allocation to the Schroders portfolio is 8.5%. This is below the target set at 10%. As per last quarter although the Fund is below its target allocation; officers do not consider it appropriate to top up this part of the portfolio further at this time. The portfolio is well positioned and returned a positive 2.2% over the quarter and continues to prove its resilience despite the apparent headwinds caused by the uncertain future due to the Covid-19 pandemic.
- 3.6.6 **Private Rental Sector** – The Fund's total commitment of £60m is now fully invested in the PRS mandate. The allocation is at 4.2% which is below the original target of 6%. This is mainly due to the good performance experienced by the rest of the portfolio, the stagnation of UK house prices and the effects of the Covid-19 pandemic. The mandate continues to perform well compared to the peer group. Although the Fund is below its target allocation, officers do not consider it appropriate to top up this part of the portfolio further at this time.
- 3.6.8 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund

Fund valuation and asset allocation for the quarter ending 31 December 2020

	Valuation at 01/10/2020 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 31/12/2020 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					44.5%	40%
Legal & General FTSE World (Ex Tobacco)	531,921	-	54,564	586,485		
LCIV RBC	67,617	-	8,015	75,632		
Fixed Interest					21.2%	20%
Standard Life	140,956	-	3,929	144,885		
Wellington	74,034	-	944	74,979		
LCIV Global Bond	92,396	-	2,658	95,054		
Infrastructure					11.9%	14%
Access	22,301	4,739	- 85	26,955		
Temporis	27,398	1,724	401	29,524		
Equitix	80,580	2,423	- 196	82,807		
Macquarie GIG Renewable Energy	21,231	- 689	480	21,022		
I Squared	18,000	- 487	- 49	17,463		
Private Equity					8.8%	10%
Knightsbridge	36,789	- 156	3,601	40,234		
Pantheon	63,203	- 1,238	4,094	66,058		
Access	16,699	596	- 225	17,070		
North Sea	6,911	921	189	8,021		
Property					8.5%	10%
Schroders	123,557	-	2,781	126,337		
Property PRS					4.2%	6%
M&G	61,938	-	22	61,960		
Cash					0.9%	0%
Legal & General FTSE4Good Cash	606	-	49	655		
Cash	16,073	- 2,620	-	13,453		
Fund Total	1,402,211	5,212	81,173	1,488,595	1	100%

Valuations are based on the bid price as reported by the Fund Managers. The valuations of the Infrastructure and Private Equity funds are the latest available and can be lagged by 3 months.

Section 3: Risk Management

- 3.7 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. The Committee should note the specific entries in the Pension Fund Risk Register when considering this Progress Report.
- 3.8 The global economy continues to present both opportunities and challenges to the investor. The three components of the portfolio – equities, fixed interest and alternatives – should perform differently in respect of economic stresses to give an aggregate performance in line with the target described above. These different scenarios currently include: frictionless trade for the UK post Brexit; Europe and the Eurozone crisis; the recovery of the US economy; the development of the Chinese economy; environmental and climate issues; global debt and inflation; emerging markets; and conflicts around the globe.
- 3.9 Much attention is focused on the current Covid pandemic, appropriately considering the personal impact on a great number of people. At the present some economies are responding to stimulus packages, masking the true impact of the crisis; others are simply struggling to contain and treat the pandemic, whilst for many countries the impact is yet to be understood or assessed. The Croydon portfolio is exposed to each of these markets: the US, Europe, the Indian sub-continent, Far East and emerging economies, so the benefits and concerns are offset in the aggregate returns. The current portfolio was designed with diversity in mind to ensure that such events could be mitigated and to date we have not experienced the phenomenon whereby asset classes tended to all correlate. By and large the portfolio has performed as expected and returns have held up. No reactive measures are required.
- 3.10 Mercer, the Fund's investment advisor, have drafted two reports covering the recent period, one analysing performance and the other the state of the markets. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Visits

- 3.11 Officers have continued to maintain contact with the Fund's investment managers and advisors throughout the lockdown period. Specifically they have met with:

Schroders, Macro and Market Outlook (January);
London (CIV) Low Carbon Seed Investment Group (January)
Pantheon (January)
Mercer (February)
Insticube (February)

4 CONSULTATION

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

5 FINANCIAL CONSIDERATIONS

- 5.1 This report deals exclusively with the investment of the Council's Pension Fund and

compares the return on investment of the Fund against the benchmark return.

6. LEGAL CONSIDERATIONS

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

- 7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

Included in Part B of the agenda.
Quarterly reports from each fund manager (circulated under separate cover to the Committee Members.)

Appendices:

There are no part A appendices.

Part B appendices:

Pursuant to Schedule 12A paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information), the following appendices are considered to be precluded from publication:

Appendix A: London Borough of Croydon Returns to 31 December 2020, Mercer

Appendix B: Market Background and Market View Q3 2020, Mercer

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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