

# Pension Board Agenda



To: Michael Ellsmore (Chair)

Councillor Maggie Mansell, Keith Oxspring, Richard Elliott, Teresa Fritz,  
Ava Watt and David Whickman

A meeting of the **Pension Board** which you are hereby summoned to attend, will be held on **Thursday, 11 January 2018** at **2.00 pm** in **F10, Town Hall, Katharine Street, Croydon CR0 1NX**

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

James Haywood  
020 8726 6000 x63319  
james.haywood@croydon.gov.uk  
www.croydon.gov.uk/meetings  
Wednesday, 3 January 2018

Members of the public are welcome to attend this meeting.  
If you require any assistance, please contact the person detailed above, on the righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at [www.croydon.gov.uk/meetings](http://www.croydon.gov.uk/meetings)

## **AGENDA – PART A**

**1. Apologies for Absence**

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

**2. Minutes of the Previous Meeting (Pages 5 - 10)**

To approve the minutes of the meeting held on 6 July 2017 as an accurate record.

**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.

**5. Governance Review (Pages 11 - 60)**

**6. Administration Update (Pages 61 - 64)**

**7. The General Data Protection Regulation (Pages 65 - 68)**

**8. Risk Management Policy (Pages 69 - 84)**

**9. Review of Risk Register (Pages 85 - 92)**

**10. Asset Transfer to London CIV (Pages 93 - 98)**

**11. Forward Plan (Pages 99 - 102)**

**12. Review of Pension Committee Agenda (Pages 103 - 130)**

**13. 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**

**14. Minutes of the last meeting (Pages 131 - 132)**

**15. Review of Pension Committee Agenda (Pages 133 - 170)**

This page is intentionally left blank

**Pension Board**  
**Minutes of the meeting held on Thursday 6 July 2017 in Room F10, the Town Hall, Katharine Street, Croydon CR0 1NX**

**DRAFT**

**Present:** Mr Michael Ellsmore (Chair);

Employer Representatives:  
Mr Richard Elliott

Employee Representatives:  
Mr David Whickman  
Ms Ava Watt  
Mrs Teresa Fritz

**Also present:** Freda Townsend (Governance and Compliance Manager); Fahar Rehman (Governance and Compliance Officer); Dave Simson (Pensions Admin Manager); Nigel Cook (Head of Pensions and Treasury).

**Apologies:** There were no apologies, however the Head of Pensions and Treasury announced that a new employer representative had been appointed for the Board and would join the next meeting.

**A1 Minutes**

The Head of Pensions and Treasury provided an update on MiFD II that had been discussed at the last Board meeting. The Financial Conduct Authority (FCA) had confirmed that a new test for categorising investors had been introduced which allowed for professional investor status to be provided for funds within the Local Government Pension Fund (LGPS). While this change in policy was welcomed, there would be a considerable amount of work to be undertaken with the fund managers to get through the new regulations.

The Board **RESOLVED** to approve the minutes as a correct record of the meeting.

**A2 Disclosure of Interest**

The Chair disclosed that he chaired the Chartered Institute of Public Finance and Accountancy (CIPFA) Pension Panel – this was in relation to the training session provided for Board Members that had been led by CIPFA.

**A3 Urgent Business (if any)**

There was no urgent business to consider.

**A4 Exempt Items**

The allocation of business between Part A and Part B was agreed as stated in the agenda.

**A5 Review of Conflicts of Interest Policy**

The Head of Pensions and Treasury introduced the item and confirmed that the policy was required for review and welcomed any comments from the Board.

The Chair raised a concern at the wording of the second to last paragraph on page nine: "There is a requirement for LPB members not to have a conflict of interest". Board Members agreed that the wording did not accurately reflect the requirements, and proposed that the wording be changed to: "There is a requirement for LPB members to manage and monitor conflicts of interest in an open and transparent way".

It was noted that the Pensions Regulator provided an online toolkit that included useful guidance and training on conflicts of interests.

The Board **RESOLVED** to approve the Conflicts of Interest Policy subject to the following amendment:

- The second to last paragraph on page 9 amended to read: "There is a requirement for LPB members to manage and monitor conflicts of interest in an open and transparent way".

**A6 Review of Reporting Breaches in the Law Policy**

The Head of Pensions and Treasury invited comments on the policy. Board Members expressed concern about how the Board reported breaches and the processes in available for doing so.

The Pensions Admin Manager responded that the definition of a serious breach was open to interpretation and that reporting was an individual member responsibility as well as a collective one for the Board. It was also noted that in many instances the Regulator would be more concerned with not reporting breaches than with the

breaches themselves. An example given was delay in publishing the annual benefits statement, which would technically be a breach but could be caused due to delays from the employer side. In such an instance it would be more likely that the Regulator would be more concerned by the issue not being reported, than the actual breach.

It was considered by Board Members that the policy needed to be explicit in stating that the Board could go directly to the Pensions Regulator to report a serious breach if this was deemed necessary. It was therefore proposed that wording to that effect should be included in the statement.

The Board **RESOLVED** to approve the policy subject to the following wording to be inserted therein:

- “The Board reserves the right both collectively and individually to report breaches to the Pensions Regulator in certain circumstances. “

The Board additionally requested that officers arrange for training on the reporting of breaches for a future Board meeting.

#### **A7 Pension Board Business Plan and Training Undertaken**

Officers stated that the business plan would be circulated to Board members as soon as possible.

#### **A8 Pension Board Administration KPIs**

The Pensions Admin Manager introduced the item and described the huge challenges in collating data from deferred members. It had been an historic issue with a backlog for many decades. The backlog was fundamentally an issue of resources and priority. On the latter, the Board were informed that as the majority of deferred members data was not time sensitive urgent, it was inevitably the task that was placed on hold when urgent issues arose for officers’ attention. However, the introduction of the Pension Dashboard in 2019 created a deadline for when the data had to be completed. A plan was in place to meet this challenge and confidence was expressed that the processes in place were streamlined as much as was possible without affecting the accuracy of the data being collated.

Board Members enquired as to whether extra resources would aid the process in catching up with the backlog. The Pensions Admin Manager responded that there was a lack of experienced staff in the job market which made further recruitment a serious challenge. Additionally, the work required took time to be properly implemented

and new staff would not by itself speed up that process. Whilst the two year plan was behind schedule, there was optimism expressed that the target deadline could still be met.

The Head of Pensions and Treasury added that when the service was brought back in house in 2007, the back log was as much as 7,000 cases. The ten years since that time had seen a chipping away at the backlog, which included taking on two trainees from Hymans Robertson to support the team for approximately six weeks. It was noted that the issue of backlogged deferred cases was an issue across local authority funds and that the priority would also be that the records were accurate at the time of delivering benefits.

The Governance and Compliance Manager stated that since the service had returned in-house a huge amount of the backlog had been completed. The 2,300 cases that remained were mainly the most difficult cases, for example where the admitted body no longer existed.

The Board **NOTED** the contents of the report but expressed concern at the scale of the backlog and supported any provision of extra resources for the service.

#### **A9 Pension Board Annual report**

The Chair introduced the Annual Report and stated that the training log would be appended to the report. The Chair expressed the view that the Board had had a good year and had grown in confidence. In particular it was positive that the Pensions Regulator had come down to deliver training.

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

#### **A10 Agenda papers of the last Pension Committee**

The Chair expressed approval of the administration strategy that had been submitted to the last Committee meeting. The Pensions Admin Manager added that officers were considering what a reasonable time period was to process year end returns. To this end, Iconnect software was being rolled out to employers and officers were supporting employers in the transition.

In response to a question from the Board, officers present stated that the employers' forum was not well attended, but attempts had been made to accommodate employers such as arranging the meetings at different times of the day or doing regional forums. It was stated that



this was another example of a problem that occurred across local authority funds.

Board Members also discussed the recently published PwC report by the Scheme Advisory Board entitled “Options for Academies in the LGPS” and the apparent systematic problems with the relationship between the LGPS and academies. It was considered that academies were not properly resourced to deal with LGPS requirements and the merging of academies would present even more complications down the line.

At the request of the Chair, the Head of Pensions and Treasury provided the Board with an update on the asset allocation report that had gone to the Committee. It was stated the report detailed the progress made on meeting the allocation as it had been agreed by the Committee several years before. There had also been a recent visit by six new fund managers who had met with representatives of the Committee. In addition to this, two asset managers for infrastructure funds met with the Chair and Vice-Chair of the Committee, which had been identified for allocating further investments in order to meet the targets for that asset class as set in the strategy.

The Head of Pensions and Treasury also informed the Board that the documentation had been completed for the appointment of Hymans Robertson and Aon Hewitt through the framework, as identified in the report split into the three lots.

The Board **NOTED** the contents of the previous Pension Committee agenda papers.

The Chair concluded the meeting by announcing that Freda Townsend would be retiring before the next Board meeting. Freda was thanked for all her work done establishing the Board and the outstanding service she had provided for the Board since that time.

The meeting finished at 3.52pm.

This page is intentionally left blank

## Croydon Council

<b>REPORT TO:</b>	<b>Local Pension Board 11 January 2018</b>
<b>SUBJECT:</b>	<b>Governance Review</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<b>Sound Financial Management:</b> This report informs the Pension Board of the work and progress since the publication in June 2016 of the governance review of the work of the Pension Committee.	
<b>FINANCIAL SUMMARY:</b> Good governance leads to better decisions which should benefit the Council through better investment performance for the Pension Fund.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

### 1 RECOMMENDATIONS

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

### 2 EXECUTIVE SUMMARY

- 2.1 This report provides the Board with a survey of work undertaken in reviewing the governance arrangements for the Pension Committee.

### 3 DETAIL

- 3.1 At the first meeting of the Croydon Local Pension Board (21<sup>st</sup> April 2016), it was agreed that a priority agenda item should be a review of the Governance arrangements for the Pension Fund. The review was conducted by Aon Hewitt.
- 3.2 The results of this review were detailed in Aon Hewitt's report which is attached for information, as an appendix to this report. The brief for the review was to document and review the governance arrangements relating to the London Borough of Croydon Pension Scheme. The areas to be documented covered the role of the Pensions Committee and the effectiveness of its decision making; and the extent to which the Committee takes proper advice on those matters which require specialist input. The review additionally covered the suite of policy documents. The review adopted a methodology that sought to identify those areas where the administering

authority fails to follow published guidance or best practice and to provide an assessment of the significance of any such failures.

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

### **Executive Summary**

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

**Direction** – *What is the Fund trying to achieve?*

- *Legislation*
- *Strategies and Policies*

**Delivery** – *How does the Fund meet its aims?*

- *Business Planning*
- *Performance Monitoring*
- *Risk Management*

**Decisions** – *Does the Fund have effective decision making?*

- *Governance Structure*
- *Behaviour*
- *Pensions Skills and Knowledge*

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

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

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

- *developing a Fund business plan, to be approved and monitored by the Pension Committee;*
- *developing a Fund risk register, with summary data to be regularly fed back to the Pension Committee;*

- *expanding the terms of reference for the Pension Committee so that their responsibilities are more clearly articulated;*
  - *formalising Fund strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clearer framework;*
  - *undertaking a detailed review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes.*
- 3.7 Progress has been made against achieving these targets. These next paragraphs detail this work.
- 3.8 A business plan for the work of the Pension Committee was adopted at the March meeting (Minute A08/16 refers) and has been periodically review on a semi-annual basis (Minutes A37/16 and A5/17 refer also 5 December 2017 agenda). At that same meeting, (Minute A09/16 refers), the Committee, noted the entries in the current risk register that specifically relate to the Pension Fund and again, have reviewed the register twice a year since (Minutes A37/16 and A6/17 refer and also 5 December 2017 agenda). A document detailing the Pensions Committee's terms of reference has been submitted to the Constitutional Review group and adopted by the Council.
- 3.9 In addition the Pension Committee has updated key strategy documents, adopting:
- Communications Strategy, revised 7 June 2016 and reviewed 20 June 2017;
  - Pensions Governance Policy and Compliance Statement adopted 7 March 2017;
  - Administration Strategy revised 20 June 2017;
  - Training Policy revised 20 June 2017; and
  - Risk Management Policy adopted 5 December 2017.
- 3.10 Finally, the Pension Board Chair has attended meetings of the Pension Committee, both as an observer and to report back on the work of the Board. The Pension Committee has addressed a perceived deficit in representation by giving the co-opted pensioner representatives a vote on Committee decisions. The Committee and this Board have also received reports on key performance indicators for the administration function.
- 3.11 The one outstanding item from the review is to undertake a detailed review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes. The Pension Committee, at its meeting of 5 December 2017, mandated the Executive Director of Resources (Section 151 Officer) to commission a review of the Fund's practices against The Pension Regulator's Code. The results of this review will be reported once completed.

## **4 CONSULTATION**

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

## **5 FINANCIAL CONSIDERATIONS**

- 5.1 Poor governance inevitably impacts of the investment performance for the Pension Fund which, in turn, impacts on the contributions required from Scheme Employers, including the Council. Steady, stable levels of returns are essential to avoid excessive costs to the finances of the Council.

## **7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 7.1 This report does not contain any information which will not be made publically available by being published on the Council's Pension Fund website.

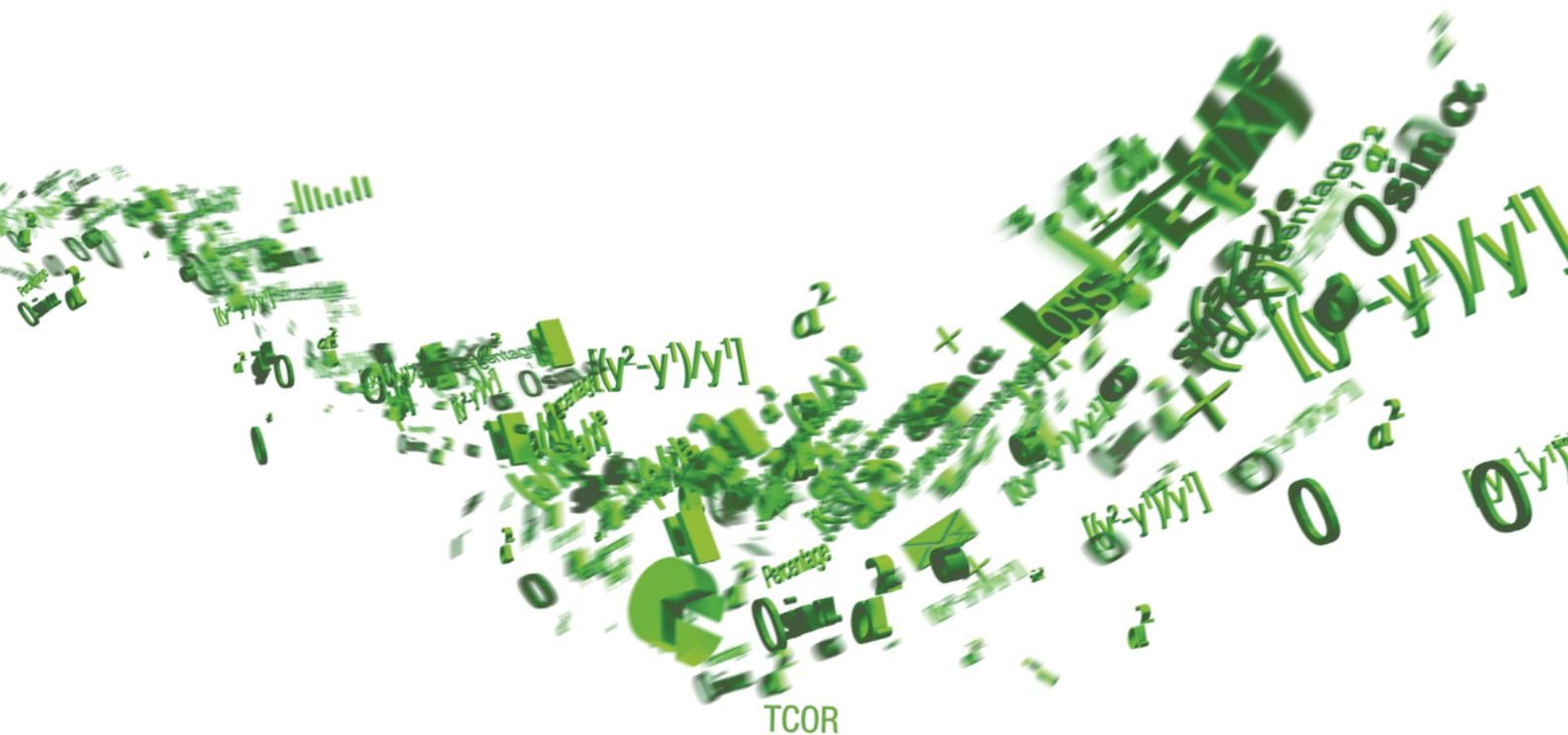
---

### **CONTACT OFFICER:**

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

### **Appendices**

**APPENDIX A:** Governance Review, London Borough of Croydon  
Pension Fund



# Governance Review

## London Borough of Croydon Pension Fund

**Prepared for** London Borough of Croydon Local Pension Board

**Copy to** Nigel Cook, Head of Pensions & Treasury  
Freda Townsend, Senior Pensions Governance & Compliance Manager

**Prepared by** Karen McWilliam, Head of Public Sector Benefits & Governance Consultancy

**Date** 29 March 2016

Risk. Reinsurance. Human Resources.

Copyright © 2016 Aon Hewitt Limited. All rights reserved.  
aon.com

Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority.  
Registered in England & Wales No. 4396810

Registered office: The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

This report and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent no part of this report should be reproduced, distributed or communicated to anyone else and, in providing this report, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this report.



## Executive Summary

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

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

### Direction – What is the Fund trying to achieve?

- Legislation
- Strategies and Policies

### Delivery – How does the Fund meet its aims?

- Business Planning
- Performance Monitoring
- Risk Management

### Decisions – Does the Fund have effective decision making?

- Governance Structure
- Behaviour
- Pensions Skills and Knowledge

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

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

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

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



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

### **Next steps**

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

# Governance Review

## London Borough of Croydon Pension Fund

### Table of Contents

<b>1 - Introduction</b>	<b>4</b>
<b>2 - Governance Framework</b>	<b>6</b>
<b>3 - Direction – What are you trying to achieve?</b>	<b>9</b>
<b>4 - Delivery – How do you meet your aims?</b>	<b>20</b>
<b>Appendix A – Reference Material</b>	<b>32</b>
<b>Appendix B – Effectiveness Questionnaire</b>	<b>33</b>

# 1 - Introduction

## Purpose and scope

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

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

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

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

## Research

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

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

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

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

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

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

## 2 - Governance Framework

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

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

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

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

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

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

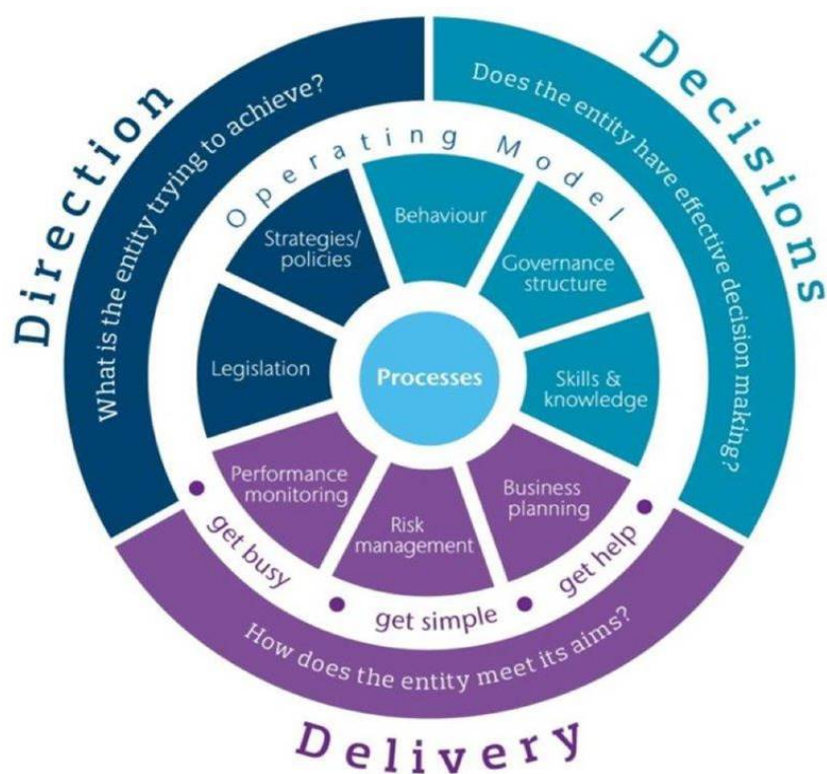





Table 1 – Aon Hewitt governance framework

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

## Decisions – Do you have effective decision making?

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

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

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

### 3 - Direction – What are you trying to achieve?

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

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

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

We have indicated in the table whether the documents are;

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










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

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







Table 2 – Strategies and policies – meeting key requirements



Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
<p><b>Funding Strategy Statement (FSS), including actuarial assessments</b></p>	<p>Yes – April 2014</p>	<ul style="list-style-type: none"> <li>▪ LGPS Regulations</li> <li>▪ CIPFA FSS Guidance</li> </ul>	<p>☺ Meets requirements (but see next column regarding timescales) and also appears to follow the CIPFA guidance.</p> <p>It is noted that the Administering Authority will be reviewing the strategy in tandem with the 2016 actuarial valuation and, as part of that exercise, will be updating it in line with the updated CIPFA guidance which is expected soon.</p>	<p>☺ The FSS and actuarial valuation were considered by the PC.</p> <p>☺ It is also clear that they took appropriate advice from the actuary.</p> <p>☹ However, we would expect the FSS to be formally approved before the valuation is finalised (as the actuary needs to (legally) have regard to the current FSS in carrying out the valuation). The current FSS does not appear to have been approved until July 2014 whilst the valuation report was signed on 31 March 2014. It is also worth highlighting that the consultation with employers is stated as being in April/May 2014, which was after the date that employer rates had been certified in the valuation report. However, it does appear employers received their initial results (which would have been based on the key elements of the FSS) in late 2013, so it may have simply been the case of the formalisation of the strategy catching up with the practicalities of the approach used in the valuation.</p>


Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
<b>Statement of Investment Principles (SIP), including:</b> - asset allocation review - policy on socially responsible investing - Myners Compliance Statement	Yes- December 2015 (albeit the version on the Council's website has not been updated and is the 2012/13 version)	<ul style="list-style-type: none"> <li>LGPS Regulations</li> <li>Compliance Statement against CIPFA guidance on the Myners Principles in the LGPS</li> </ul>	 Meets requirements including a well set out statement of compliance.	 It is clear that the latest review of the SIP was undertaken following a long process involving the PC. This included a number of discussions and challenges around the asset allocation review (training, workshops and a number of PC meetings).   It involved ongoing advice from the investment consultant and officers.   The SIP includes information relating to ESG and corporate governance matters including the use of PIRC and LAPFF.
<b>Governance Policy and Compliance Statement</b>	Yes – 2015 (no month shown but considered with annual report in September 2015)  We note that the version on the Council's website has not been updated and is the 2014 version.	<ul style="list-style-type: none"> <li>LGPS Regulations</li> <li>Compliance Statement against Secretary of State guidance</li> </ul>	 The Governance Compliance Statement provides the information that is required by the Local Government Pension Scheme Regulations 2013.   However, it does not clearly state the extent to which it complies with each of the points in the Secretary of State's Statutory Guidance. We would expect the key elements outlined in that guidance to be explicitly quoted together with a note setting out whether the Fund complies with each element.	 It does not appear that the PC was specifically asked to approve this document (it was part of the annual report and no changes were specifically highlighted). We would recommend this being clear in the future.
<b>Communications Policy</b>	Yes – September 2014	<ul style="list-style-type: none"> <li>LGPS Regulations</li> </ul>	 Meets all requirements.	 It does not appear that the PC was specifically asked to approve this document (it was part of the annual report and no changes were specifically highlighted).

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
<b>Administering Authority Discretionary Policy</b>	No (albeit the employing authority's policy is available on the website)	<ul style="list-style-type: none"> <li>LGPS Regulations – basic element only</li> </ul>	<p>☹️ No policy has been made. Note the legally required element is just in relation to waiving of reductions for ceased employers, and therefore this is not a major issue but should be rectified.</p>	<p>😊 There are a range of discretionary provisions in the LGPS regulations, such as the charging of interest on late contributions or how to determine who should receive a death grant. It is best practice to have a fuller policy which allows discretions to be approved by the PC or, given its focus on low risk matters, by officers if delegated powers are provided. It should, however, be worded appropriately to ensure that it does not fetter future discretion in relation to these powers.</p>
<b>Administration Strategy</b>	Yes – January 2016	<ul style="list-style-type: none"> <li>LGPS Regulations, (as an optional strategy)</li> </ul>	<p>😊 Meets all requirements.</p>	<p>😊 This was considered and approved at the December 2015 PC.</p>
<b>Risk Management Policy &amp; Strategy</b>	No	<ul style="list-style-type: none"> <li>CIPFA Guidance</li> </ul>	<p>😊 Not in place.</p>	N/A
<b>Annual report and accounts</b>	Yes – 2014/2015	<ul style="list-style-type: none"> <li>LGPS Regulations</li> <li>CIPFA Guidance "Preparing the Annual Report"</li> <li>CIPFA accounting guidance</li> </ul>	<p>😊 Meets all LGPS Regulatory requirements.</p> <p>😊 There appear to be some elements of the CIPFA annual report guidance that are not included in full, for example, administration data quality and a statement of compliance with the CIPFA knowledge and skills code of practice.</p> <p>😊 Due to the detailed nature of CIPFA's accounting guidance we have not considered this. However, the audit findings were reported to the September 2015 PC.</p>	<p>😊 This was considered and approved at the September 2015 PC, including the associated audit report.</p>

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
<p><b>Knowledge and Skills/Training Policy</b></p>	<p>Yes:</p> <ul style="list-style-type: none"> <li>▪ LPB July 2015</li> <li>▪ PC 2014</li> <li>▪ PC 2010 – unable to verify</li> </ul>	<ul style="list-style-type: none"> <li>▪ CIPFA &amp; SAB</li> <li>▪ TPR Code of Practice</li> </ul>	<p>☺ It appears that all key elements are considered in relation to the LPB (SAB and TPR), but we were unable to verify this in relation to the wider requirements in line with the CIPFA guidance. Although some information is contained within the Fund's Training Log, we were advised that the original decisions were made at a PC meeting in 2010 and those papers are no longer publically available.</p> <p>We would therefore recommend that a single Fund Knowledge/Training Policy is created, standardising the approach for all Fund stakeholders in accordance with the SAB and CIPFA requirements and that this is formally approved and adopted by the PC and LPB.</p> <p>When this combined document is created, we would recommend that this clearly states the individual responsible for ensuring that the Policy is implemented (as is recommended). This will be a useful reminder for relevant stakeholders as to who to contact if they feel they require further training.</p>	<p>☺ We were advised that the original decision was made at a PC meeting in 2010 which is clearly good practice but we observe that this decision is now nearly 6 years old, and best practice is that key policies should be regularly refreshed</p>

Strategy / Policy	Fund Version? / Version Date	Legal or National Guidance Requirement	Adherence to Legislation and Guidance	Process, decision making or more general observations
<b>Conflicts of Interest Policy</b>	Yes: <ul style="list-style-type: none"> <li>LPB July 2015</li> </ul>	<ul style="list-style-type: none"> <li>SAB</li> </ul> Required for LPB only	 The Conflicts of Interest Policy for the LPB appears to incorporate the key elements as expected.	 Although not explicit in any legislation or guidance, it would be good practice to have a wider Fund Conflicts of Interest Policy applying to all stakeholders, and this is mentioned as part of the CIPFA annual report guidance. This should highlight differences between the Council's requirements in relation to declarations for elected members and officers as well as ensuring other parties (observers and advisers) are fully aware of expectations.
<b>Breaches of the Law Procedure</b>	Yes: <ul style="list-style-type: none"> <li>LPB July 2015</li> </ul>	<ul style="list-style-type: none"> <li>Pensions Act 2004</li> <li>TPR Code of Practice</li> </ul>	 The Breaches Procedure that has been put in place appears to be focussed on LPB members. We recommend that changes are made to make it clear that it equally applies to all persons who are required to report material breaches and then this requirement (and procedure) should be communicated to all such persons.	 We also recommend that the Procedure is clearer in relation to ongoing monitoring of breaches with the PC and LPB, whether the breach is materially significant, and hence reportable, or not.

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

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

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

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

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

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

Table 3a – Strategies and policies – document structure

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



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

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

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

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

## 😊 Adherence to The Pensions Regulator Code of Practice

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

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

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

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

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

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

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

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

## 4 - Delivery – How do you meet your aims?

*In this section we consider whether the Fund:*

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

### Business Planning

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Performance Measurement

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

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



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

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



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

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

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

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

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

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

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

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

## Risk Management

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

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

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

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

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

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

## 5 - Decisions – Do you have effective decision making?

*In this section we consider whether the Fund:*

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

### Appropriate governance structure

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

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

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

#### **The function of the PC**

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

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

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

#### **The function of the LPB**

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

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

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

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

- (a) *to secure compliance with—*
- (i) *these Regulations,*
  - (ii) *any other legislation relating to the governance and administration of the Scheme and any connected scheme, and*
  - (iii) *any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and*
- (b) *to ensure the effective and efficient governance and administration of the Scheme and any connected scheme."*

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

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

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

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

#### **Appropriate representation**

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

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

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

### **Appropriate level of decision making and quick decision making where appropriate**

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


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

### **Well-presented information/reports**

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

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

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

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

### **Sufficient time for discussion**

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

### **Good quality (committee) administration**

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

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



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

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

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

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

### **Managing conflicts of interest**

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

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

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

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

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

Some of our observations in relation to the Fund are:

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

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

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

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

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

## **Transparency to Stakeholders**

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

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

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

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

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

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

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

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

## Skills and knowledge

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Rely appropriately on officers and advisers to provide expert knowledge**

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

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

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

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

## Behaviour

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

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

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

### **Attendance at Meetings**

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

### **General Behaviour**

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

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

and they also apply to co-opted members.

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

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

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

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

## Appendix A – Reference Material

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

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

## Appendix B – Effectiveness Questionnaire

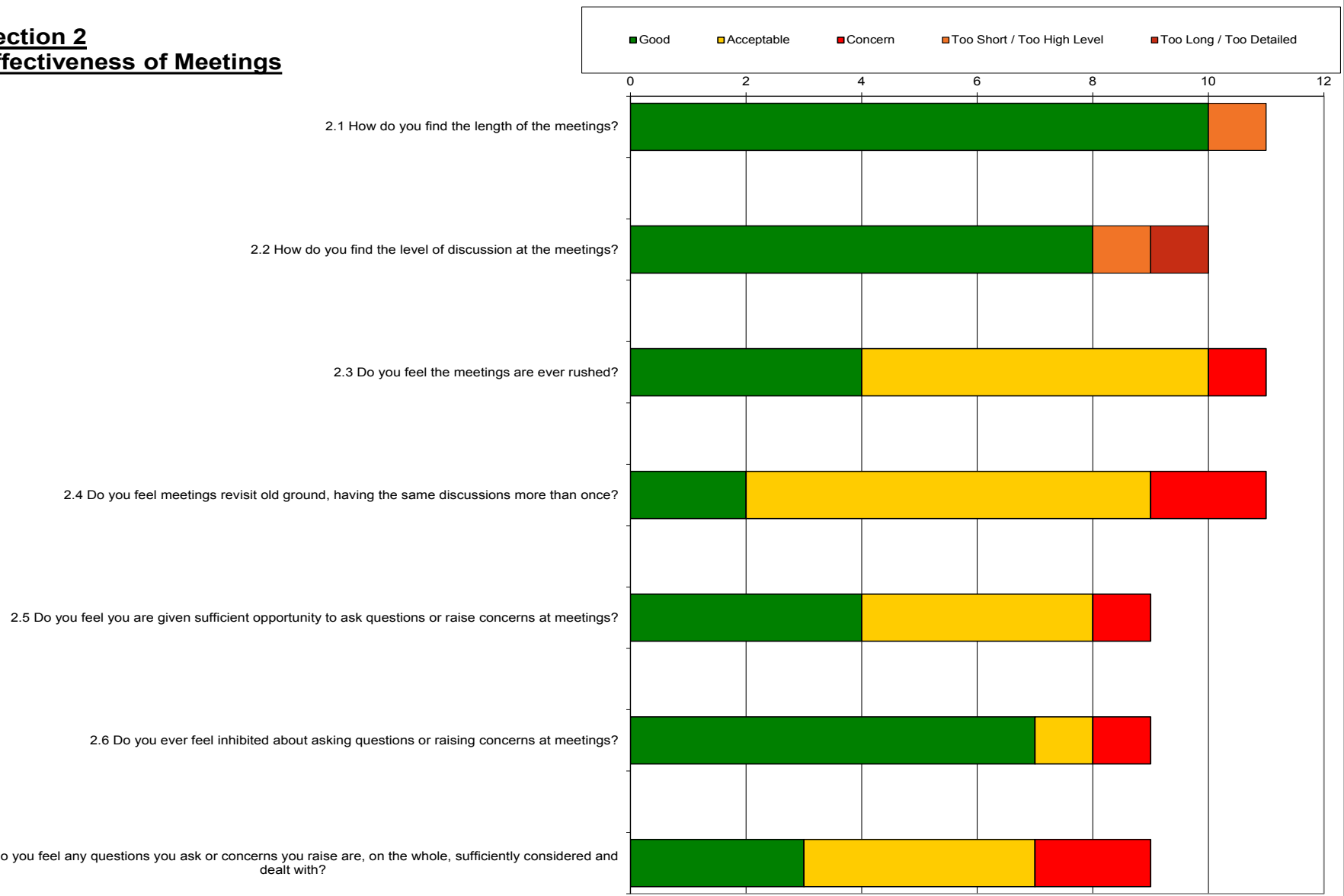
We show below the results of the effectiveness questionnaire which was provided to all members of the PC, including co-opted members, and key officers of the Fund. The questionnaire was completed by 12 persons (out of a possible 16), albeit one was received too late in the day to be amalgamated into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

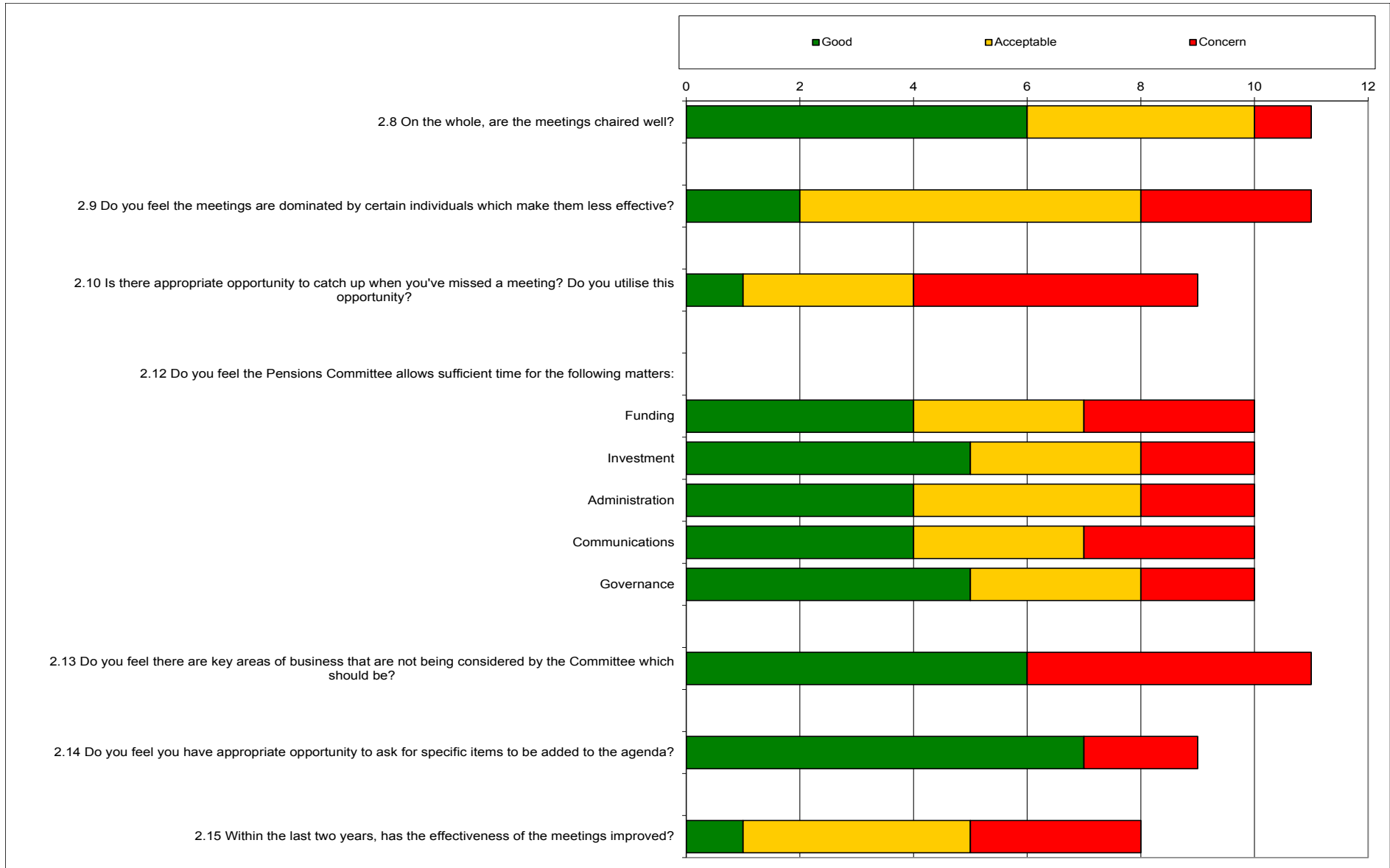
The bars in the graphs are colour coded to highlight particularly positive or negative answers. A key is provided on each page.



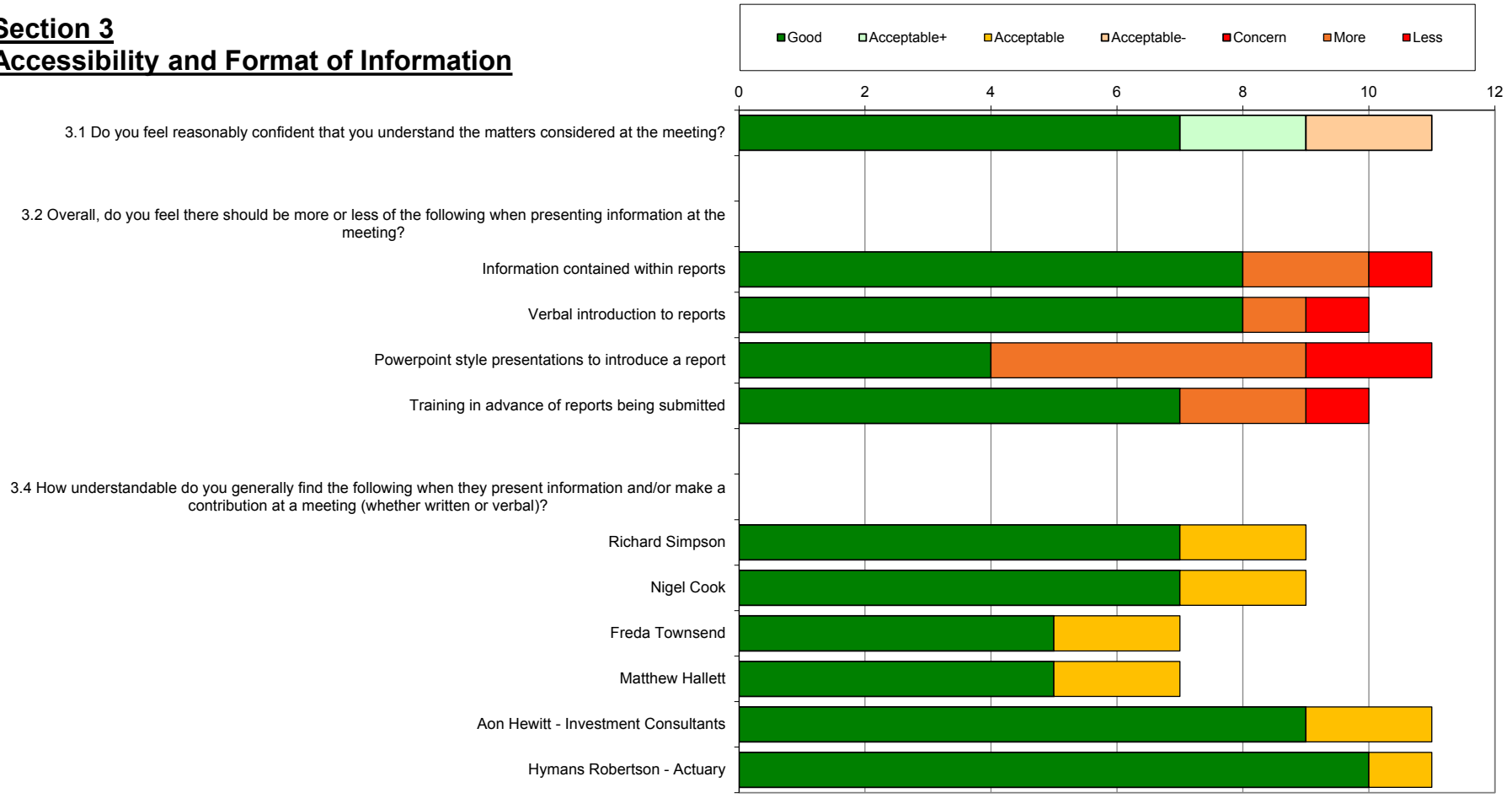


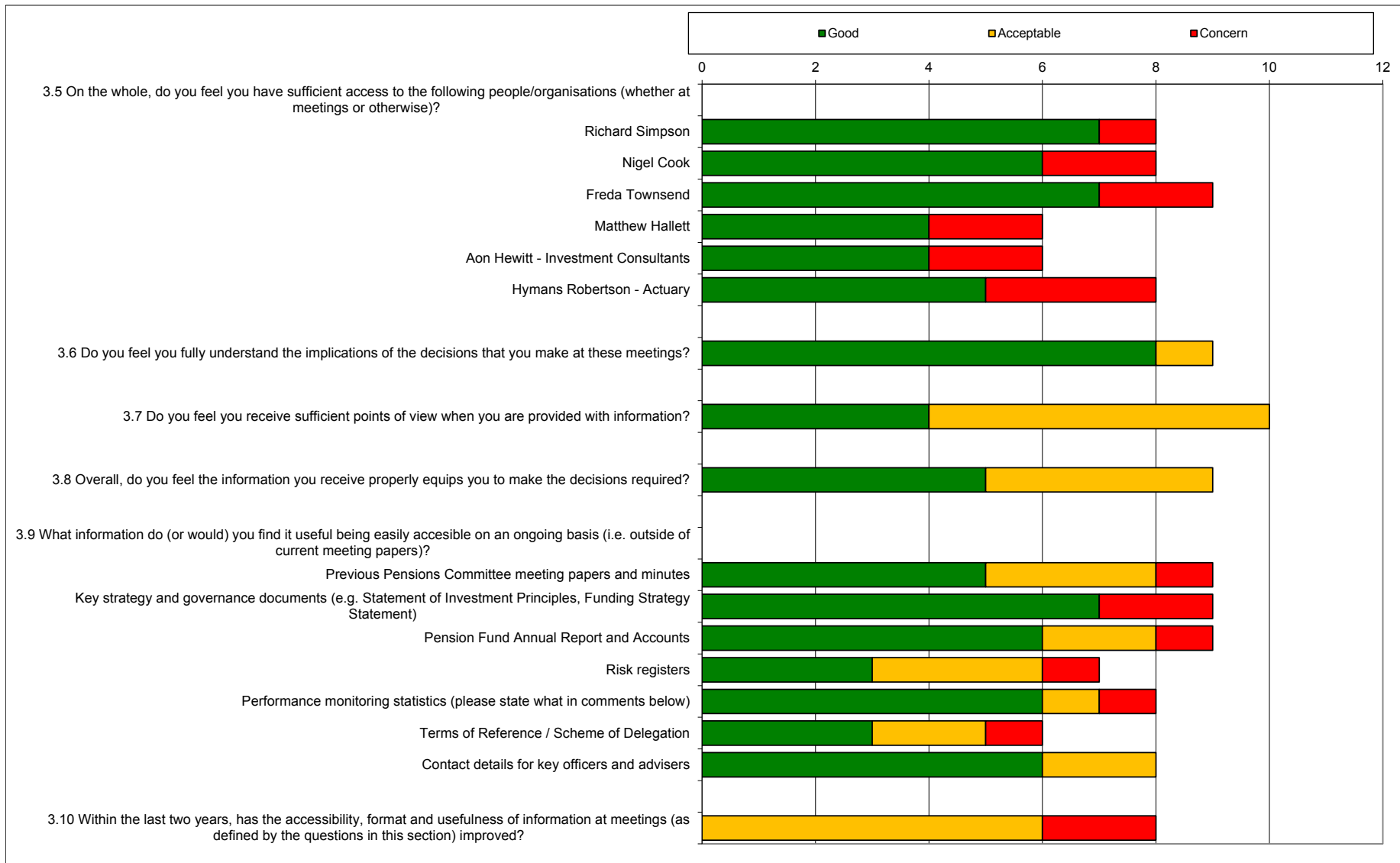
**Section 2**  
**Effectiveness of Meetings**



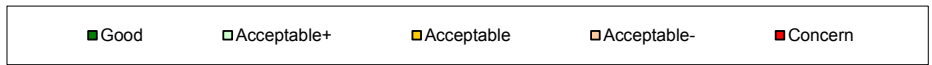


**Section 3**  
**Accessibility and Format of Information**

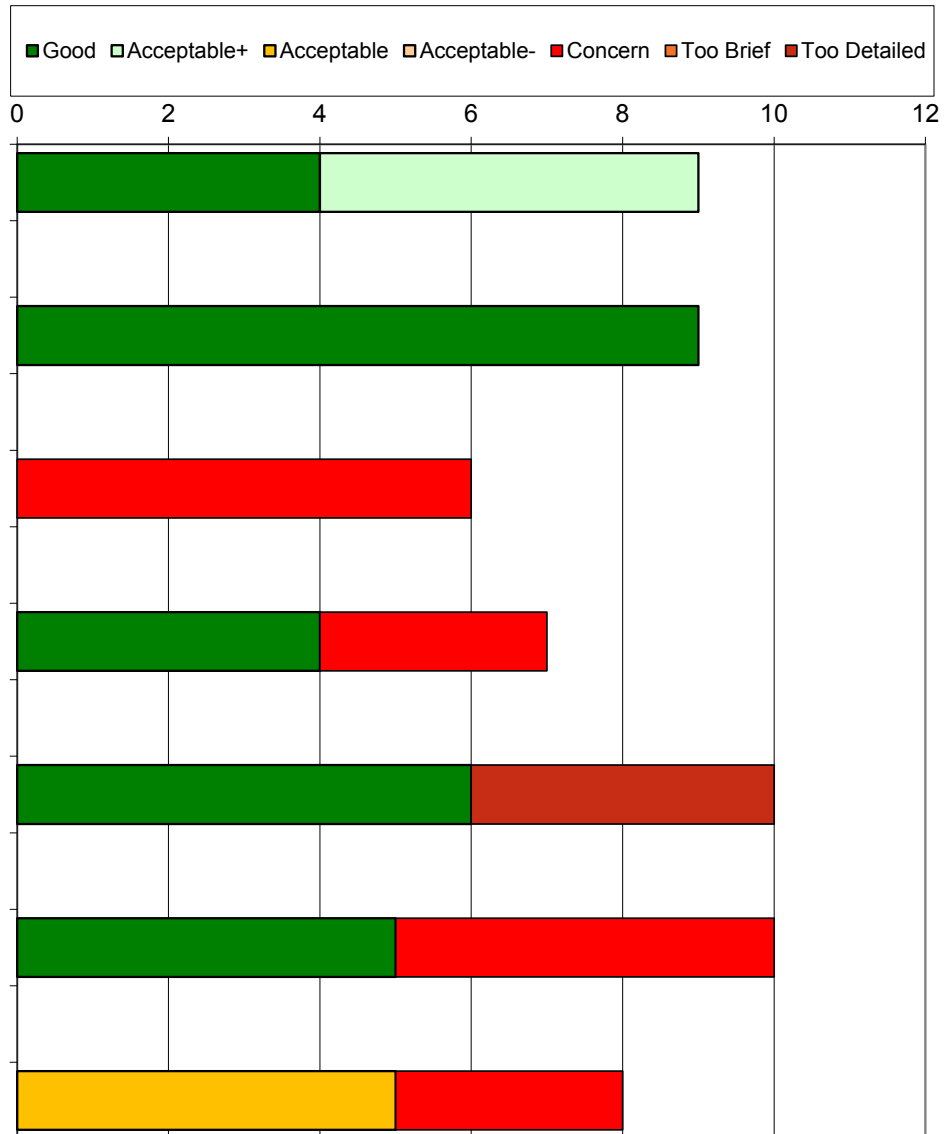




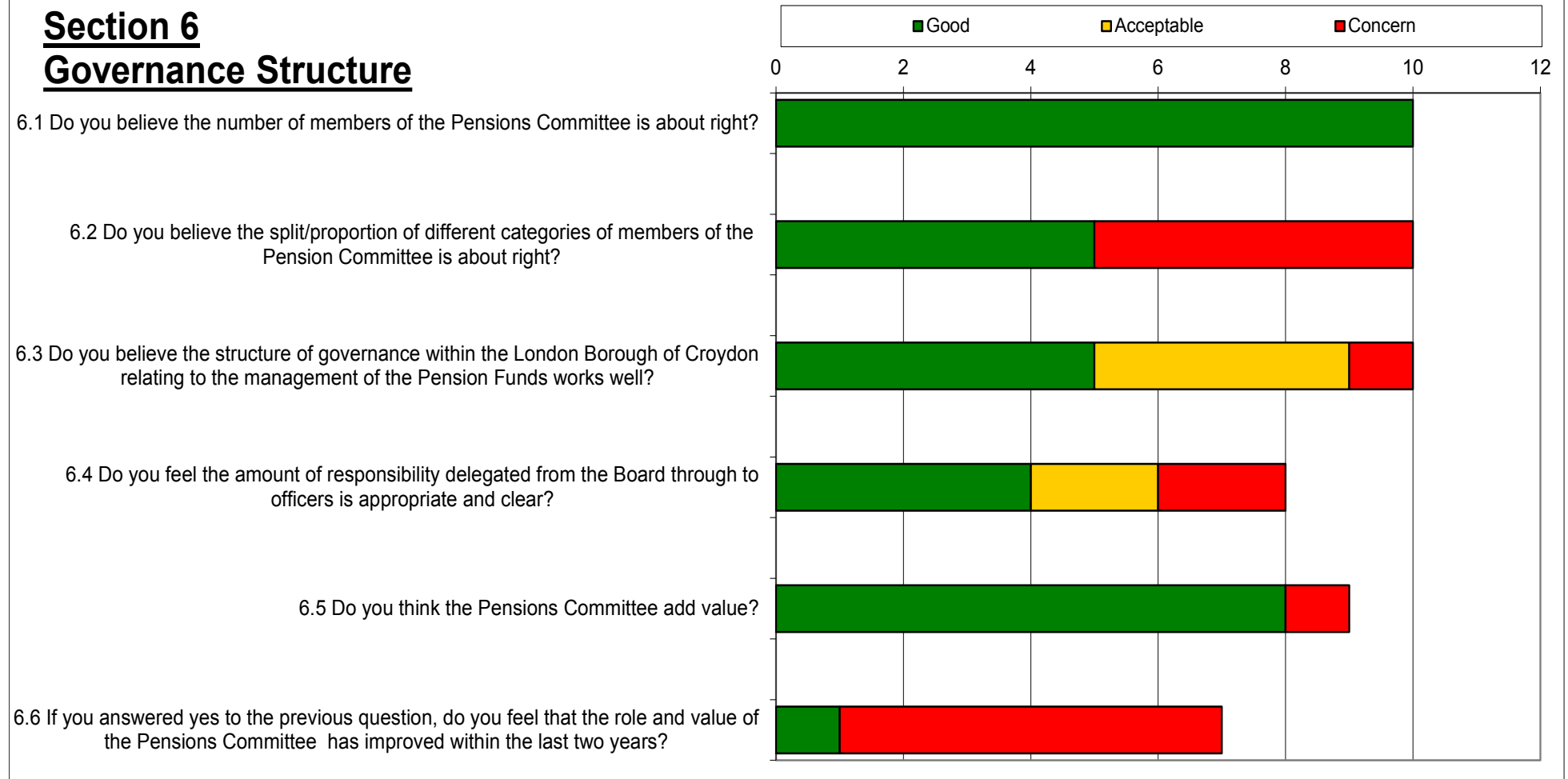
**Section 4**  
**Knowledge and Understanding**



## Section 5 Administration of Meetings

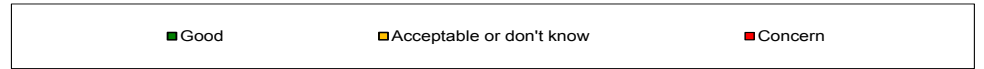


## **Section 6** **Governance Structure**



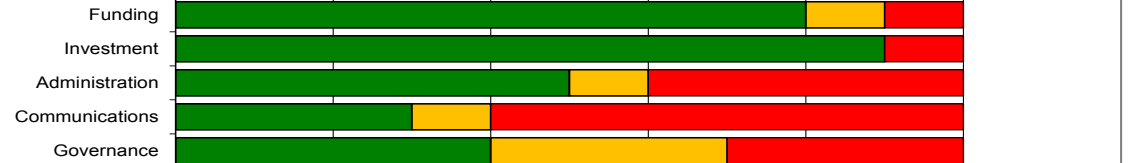


**Section 7**  
**Vision for the Future**

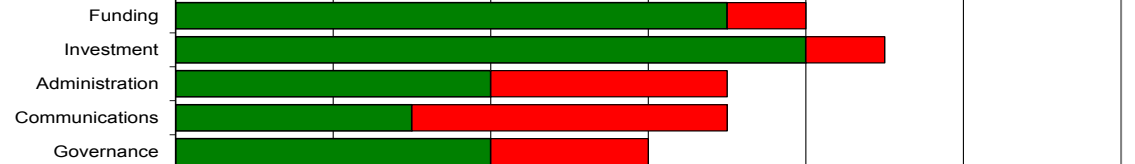


0 2 4 6 8 10 12

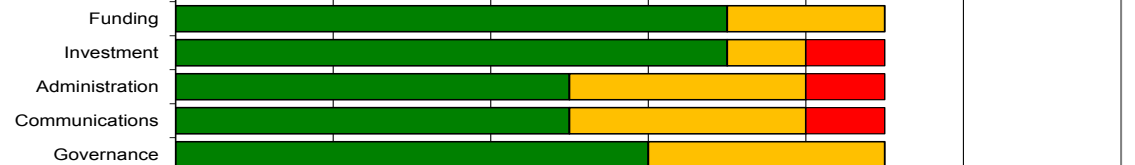
7.1 Do you believe the Pensions Committee has set clear objectives for the Fund in relation to:



7.2 Do you feel that you are given sufficient information to understand whether or not these objectives are being achieved on a regular basis?



7.3 Do you feel the Fund has appropriate strategies and policies that articulate how these objectives will be delivered?



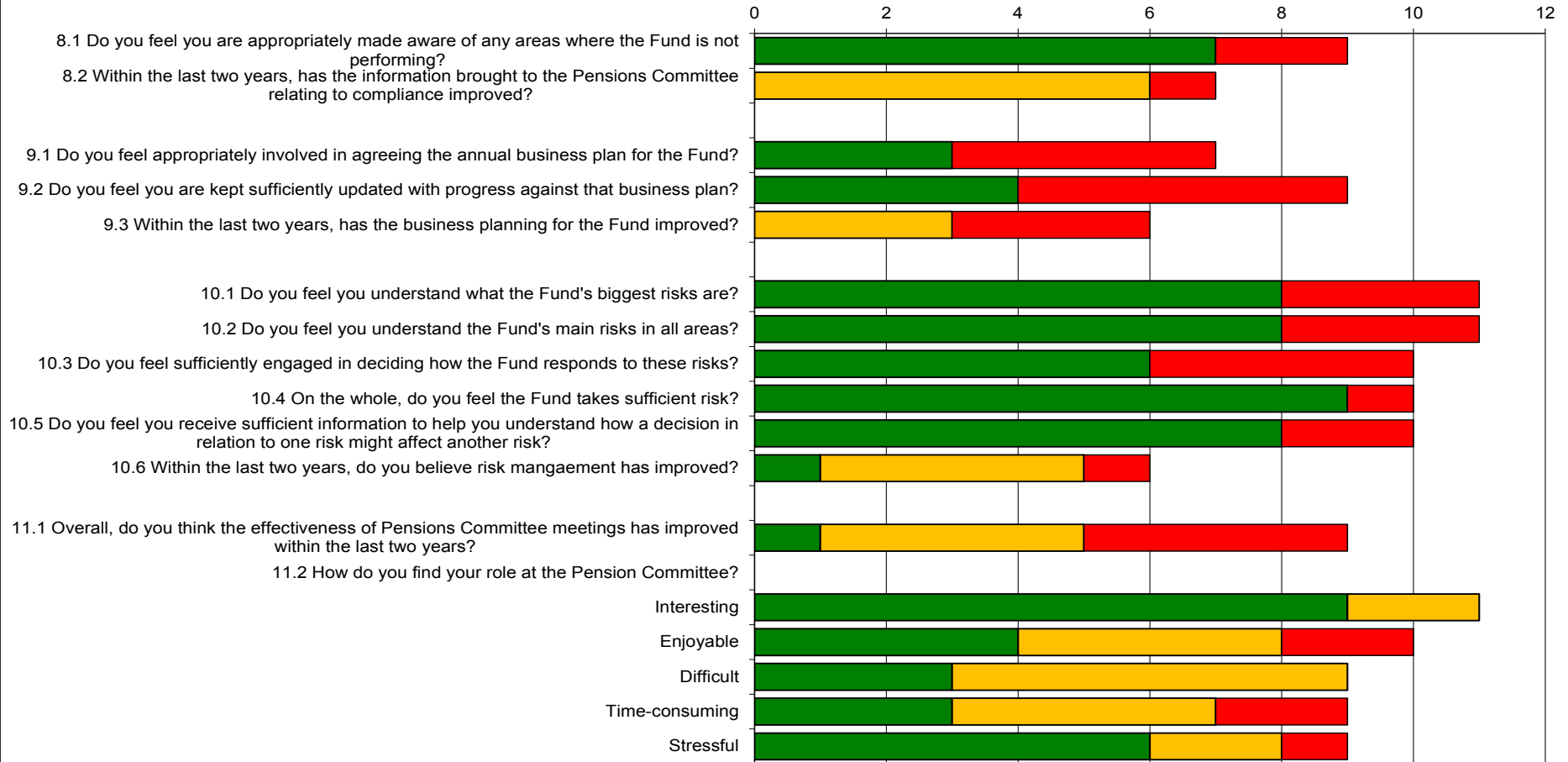
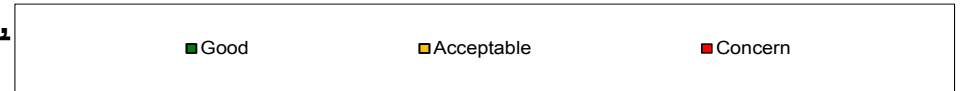
7.4 Do you feel these strategies and policies are brought back to the Committee for review sufficiently often?



7.5 Within the last two years, has the Pensions Committee's vision for the future improved?



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



## Contact Information

**Karen McWilliam**

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

**Dan Kanaris**

Senior Public Sector Consultant  
Public Sector Team  
+44 (0)117 900 4447  
[daniel.kanaris@aon.co.uk](mailto:daniel.kanaris@aon.co.uk)

## About Aon

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

This page is intentionally left blank

## Croydon Council

<b>REPORT TO:</b>	<b>Local Pension Board 11 January 2018</b>
<b>SUBJECT:</b>	<b>Administration Update</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<b>Sound Financial Management:</b> this report considers the improvements and efficiencies for the administration of the Fund.	
<b>FINANCIAL SUMMARY:</b> there are significant fines for non-compliance with regulatory requirements.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

### 1 RECOMMENDATIONS

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

### 2 EXECUTIVE SUMMARY

- 2.1 This report reviews the systems and processes that have been put in place to improve efficiency and performance of the administration of the Fund.

### 3 DETAIL

- 3.1 In November 2016 the pensions teams reviewed and revised many of the systems and processes in place with the view to improving efficiency and performance.
- 3.2 One of the changes made was to introduce Business As Usual (BAU). This involved putting cases outstanding as at 6 November 2016 in to "Backlog". All new cases received are placed in BAU.
- 3.3 This has enabled the team to manage their workload more effectively and help ensure all BAU cases are processed in line with our KPIs.

3.4 It will become a mandatory requirement for Administering Authorities who employ more than 250 people, or who process sensitive personal data (about members' health or family circumstances), to maintain records of all personal data processing activities. The records may have to be presented to the Information Commissioner's Office (ICO) on demand.

3.5 The backlog cases are prioritised and processed accordingly. There are no death or retirement cases in backlog. The tables below illustrates our performance against the KPIs for our priority cases deaths and retirements. It all shows the total number of cases processed by the team.

BAU

Case type	Month	KPI	Total cases processed	Average days taken to completed case	% with target	Total cases processed*
Deaths	APR	5	20	4	100	
Retirements	APR	10	39	5	97.5	
Total cases processed	APR					1086
Deaths	May	5	15	8	93.33	
Retirements	May	10	29	7	96.55	
Total cases processed	May					1229
Deaths	June	5	19	7	89.4	
Retirement	June	10	28	5	92.8	
Total cases processed	June					504
Deaths	Jul	5	15	4	87.5	
Retirement	Jul	10	32	3	100	
Total cases processed	Jul					1082
Deaths	Aug	5	22	3	95	
Retirements	Aug	10	25	4	100	
Total Cases	Aug					1233
Deaths	Sept	5	30	4	87	
Retirements	Sept	10	34	6	97	
Total Cases	Sept					1241
Deaths	Oct	5	20	3	90	
Retirements	Oct	10	39	4	100	
Total Cases*	Oct					1532
Deaths	Nov	5	15	3	100	

Retirements	Nov	10	39	4	100	
Total Cases*	Nov					1720
Deaths	Dec	5	23	3	100	
Retirements	Dec	10	26	5	100	
Total Cases*	Dec					1270

\*total cases processed by team in month (all categories)

## Backlog

	Deferreds	Transfers	Combined	Misc	Total
APR	1,381	462	271	274	2,388
MAY	1,356	431	271	261	2,319
June	1,333	392	271	185	2,181
July	1325	385	268	181	2,159
August	1302	358	264	163	2,087
Sept	1287	352	259	144	2,042
Oct	1,258	318	258	134	1,978
Nov	1,251	301	255	36*	1,843
Dec	1,240	281	252	35	1,808

- GMP cases being dealt with as part of the Reconciliation exercise and as part of the Payroll data cleanse

- 3.6 The team continues to be busy. Our performance against the KPIs is good but with some room for improvement. There continues to be high volumes of work but our revised processes are helping us keep on top of the workload.
- 3.7 The pensions team does carry out a number of “employer” functions mainly around ensuring the pay used for calculating benefits is correct. There are also some historic data issues which means the time taken in dealing with a case is longer than ideal.
- 3.8 We have done a lot of work on developing Iconnect. This will streamline the new starter process as well as identify leavers much earlier than was previously the case. We are using Iconnect for the Council (Oracle) with the view to a managed role out to other employers throughout the year.
- 3.9 The backlog cases have reduced each month but there is still plenty of work to do. We have plans in place to reduce the outstanding cases but volume of work together with progressing a number of projects will have an impact on the timescale. The high number of cases processed in April and May mainly reflects the missing starters that have been identified by the year end- process.

## **4. PROJECT UPDATE**

### **Pensions Payroll**

- 4.1 First live payroll run happened in November. Only one issue which was around bank accounts that require a roll number. Although we had a number of BACS rejections, the pensions were paid either by BACS or CHAPS a few days late. Overall a great success.
- 4.2 The next stage is to merge the Altair administration record with the Altair payroll record. It is intended this will take place in Jan or Feb 2018.

### **GMP Reconciliation**

- 4.3 The Guaranteed Minimum Pension (GMP) reconciliation project is progressing. This has an HMRC deadline of December 2018 so the progress is monitored carefully. Failure to complete the project would result in the pension fund being on the hook for pension liabilities that we are not responsible for.

### **Iconnect**

- 4.4 We started using Iconnect for the council (Oracle). This has caused considerable work for the pensions team as we are resolving the data issues that would normally fall to the employer. Although this causes short term additional administration, it is hoped that we will soon see the benefits.
- 4.5 It will be rolled out to other fund employers once we are sure that we have the necessary resources available to provide similar administration support for each employer.

---

### **CONTACT OFFICER:**

Dave Simson – Pensions Manager,  
Corporate Resources Department.



## Croydon Council

<b>REPORT TO:</b>	<b>Local Pension Board 11 January 2018</b>
<b>SUBJECT:</b>	<b>The General Data Protection Regulation</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<b>Sound Financial Management:</b> this report considers the introduction of additional responsibilities for the administering authorities in respect of data protection.	
<b>FINANCIAL SUMMARY:</b> there are significant fines for non-compliance with these additional regulatory requirements.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

### 1 RECOMMENDATIONS

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

### 2 EXECUTIVE SUMMARY

- 2.1 This reports sets out the requirements for the Council, as administering authority for the Local Government Pension Scheme, to comply with the General Data Protection Regulation.

### 3 DETAIL

- 3.1 The General Data Protection Regulation (GDPR) will have direct effect throughout the EU from 25 May 2018. It applies to all EU member states and provides a single EU legal framework for the processing of individuals' data. The maximum potential fine for breaching the GDPR will be €20 million (or 4% of global turnover if higher). Pension schemes necessarily hold and process significant amounts of personal data relating to members. As a matter of good governance, it is important that member data is safeguarded. There is already a legal obligation on LGPS fund Administering Authorities to keep member data secure, but new legislation will come into force in May 2018 that will have a significant impact on the obligations of Administering Authorities and the potential financial penalties if they get it wrong.

- 3.2 The government has confirmed that, despite Brexit, the GDPR will be enforceable in the UK from May next year.
- 3.3 Administering Authorities are responsible for the personal data held by their LGPS funds, meaning the GDPR changes are relevant to them. Administering Authorities must demonstrate compliance with the GDPR in relation to their LGPS fund. Under these Regulations they should be able to show in a meaningful way that both the overall governance structure for data protection compliance and the individual policies and procedures relating to data processing are compliant.
- 3.4 It will become a mandatory requirement for Administering Authorities who employ more than 250 people, or who process sensitive personal data (about members' health or family circumstances), to maintain records of all personal data processing activities. The records may have to be presented to the Information Commissioner's Office (ICO) on demand.
- 3.5 The GDPR retains the current obligation to have appropriate technical and organisational data security measures in place, but also provides that certain specific measures (such as encryption) should be used "where appropriate". It also requires that processes incorporate "privacy by design and default", i.e. compliance with the GDPR needs to be integrated into all data processing and should be the default setting on all privacy arrangements.
- 3.6 The GDPR requires new content to be inserted into all service and data sharing agreements that govern the use of personal data. It also imposes direct liability on such service providers for data protection compliance. This will therefore encompass the contractual agreements with Scheduled, Community and Admitted Bodies, auditors (internal and external), the Scheme Actuary, and payroll providers.
- 3.7 The GDPR requires additional content to be included in all privacy notices regarding how personal data will be used by data controllers. A data controller is any organisation that makes decisions on how personal data is to be processed and for which purposes, so will include the Administering Authorities of an LGPS fund. Data controllers must tell anyone whose personal data they collect what information is held, how it is used, who it may be shared with and what safeguards are in place.
- 3.8 The GDPR also makes it more difficult to obtain valid consent for the use of personal data – consents must be fully informed, specific, unambiguous and freely given by way of a statement or clear affirmative action by the member. In addition, there is a specific obligation to retain proof of consent.
- 3.9 The GDPR requires data breaches involving any risk to individuals to be reported to the ICO "without undue delay", and within 72 hours of becoming aware of the breach in any case. The report must contain details of the breach, including the number of individuals affected, the likely consequences and the steps being taken to address/mitigate the breach. Affected individuals must also be notified directly if the breach is a "high risk" to their rights and freedoms.
- 3.10 As public bodies, Administering Authorities may be required to appoint a DPO. The European data protection authorities recommend that a DPO is appointed

even if an organisation is not required to have one under the GDPR. The DPO is expected to be appropriately qualified and should report directly to the senior management at the authority. The DPO will be the contact person in the organisation for questions related to processing of personal data in respect of the LGPS fund, as well as the rest of the Administering Authority's functions.

- 3.11 There is a project in place to ensure compliance with GDPR which is led by the Council's Monitoring Officer. For the purposes of GDPR, the Head of Corporate Law (Deputy Monitoring Officer) has been designated as the Council's Data Protection Officer and the project group includes officers from across the organisation and is being supported by our internal audit provider, Mazars.
- 3.12 The GDPR introduces new rights for individuals, including the right of data portability, the right to restrict processing, the right to object to processing, the right to object to direct marketing and the right to be forgotten – i.e. the right to have one's personal data deleted.
- 3.13 Data Protection Impact Assessments (DPIAs) must be carried out in relation to all "high risk" processing. This is where there is a high risk to rights and freedoms, for example, extensive profiling of individuals using automated processing or large scale processing of sensitive personal data (e.g. medical information). The European data protection authorities recommend to carry out DPIAs as good practice and to demonstrate accountability for processing personal data. Consultation with the ICO may be required prior to processing in relation to high risk processing in certain circumstances.

#### **4 CONSULTATION**

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

#### **5 FINANCIAL CONSIDERATIONS**

- 5.1 The fines associated with non-compliance with the Regulations are significant.

#### **7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 7.1 This report does not contain any information which will not be made publically available by being published on the Council's Pension Fund website.

---

#### **CONTACT OFFICER:**

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

This page is intentionally left blank

# Agenda Item 8

<b>REPORT TO:</b>	<b>LOCAL PENSION BOARD</b> <b>11 January 2017</b>
<b>SUBJECT:</b>	<b>Risk Management Policy</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson, Executive Director Resources and Section 151 Officer</b>
<b>LEAD MEMBER:</b>	<b>Councillor Simon Hall , Cabinet Member for Finance and Treasury</b>
<b>PERSON LEADING AT THE BOARD MEETING:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>

## **1. EXECUTIVE SUMMARY**

- 1.1 This report was referred to the Pension Committee on 5 December 2017. The report considered the background to the requirement for the Pension Committee to adopt a Risk Management Policy. Adoption of the policy would ensure that governance arrangements were in line with best practice and compliant with the requirements of the Pensions Regulator
- 1.2 Board members are invited to consider the submitted papers for this item and review and comment on their contents.

## **2. RECOMMENDATION**

- 2.1 To note the papers submitted to the 5 December 2017 Pension Committee attached to this report.
- 2.2 To comment on the contents contained therein and report back to the Pension Committee.

---

**CONTACT OFFICER:**

James Haywood,  
Senior Democratic Services and Governance Officer  
020 8726 6000 x63319

**ATTACHMENTS:**

Report:

Risk Management Policy report

Appendix A:

Draft Risk Management Policy document

# Croydon Council

<b>REPORT TO:</b>	<b>Pension Committee 5 December 2017</b>
<b>SUBJECT:</b>	<b>Adoption of the Risk Management Policy</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Sound Financial Management: This report recommends that the Pension Committee formalises the arrangements relating to risk management by adopting a risk management policy.	
<b>FINANCIAL SUMMARY:</b> Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>	

## 1. RECOMMENDATIONS

- 1.1 The Committee is asked to adopt this policy.
- 1.2 The Committee directs the Executive Director of Resources (Section 151 Officer) to commission a review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes.

## 2. EXECUTIVE SUMMARY

- 2.1 This report deals with the background to the requirement for the Pension Committee to adopt a Risk Management Policy. Adoption of this policy ensures that governance arrangements are in line with best practice and compliant with the requirements of the Pensions Regulator.

## 3. DETAIL

- 3.1 The Croydon Pension Board commissioned Aon Hewitt to undertake a review of the governance of the Pension Fund in December 2015. The final report from Aon Hewitt was presented to the Board at its meeting of 21 April 2016. The brief for the review was to document and review the governance arrangements relating to the London Borough of Croydon Pension Scheme. The areas to be documented

covered the role of the Pensions Committee and the effectiveness of its decision making; and the extent to which the Committee takes proper advice on those matters which require specialist input. The review additionally covered the suite of policy documents that relate to the administration of the LGPS. The overall conclusion of the review is that the governance of the Fund is of a good level in many areas, and meets legal requirements on the whole.

3.2 However, the report did identify certain areas which could potential be improved, including:

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

3.3 The Fund Business Plan and Risk Register are considered by reports elsewhere on this agenda. The Committee's Terms of Reference, Conflicts of Interest policy and Training policy have been the subject of review by this Committee. A review of compliance against the Pension Regulator's Code of Practice should be undertaken by an independent and qualified party by the end of March, 2018.

3.4 This report considers the Risk Management Policy which is attached. The Risk Management Policy details the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk;
- how risk management is implemented;
- risk management responsibilities;
- the procedures that are adopted in the Fund's risk management process; and
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

3.5 By adopting this policy Croydon Council, the Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

3.6 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions and Treasury is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee. However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.



- 3.7 This policy will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

#### **4 FINANCIAL CONSIDERATIONS**

- 4.1 There are no further financial considerations flowing from this report.

#### **5. OTHER CONSIDERATIONS**

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

#### **6. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.
- 6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.
- 6.3 The proposed Risk Management Policy details the risk management strategy for the Pension fund and will assist the Committee with its statutory responsibilities.
- 6.4 When exercising its functions in relation to the Pension Fund the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty).

**Approved by:** Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

---

**CONTACT OFFICER:**

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

**BACKGROUND DOCUMENTS:**

None

**Appendix**

Appendix A: Risk Management Policy

# **The London Borough of Croydon Pension Fund**

## **Risk Management Policy**

[Fund logo or formatting as required]

## Risk Management Policy

### Introduction

This is the Risk Management Policy of the London Borough of Croydon Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by the London Borough of Croydon ("the Administering Authority"). The Risk Management Policy details the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

### To whom this Policy Applies

This Risk Management Policy applies to all members of the Pension Committee and the local Pension Board, including both scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund.

Less senior officers involved in the daily management of the Fund are also integral to managing risk for the Fund, and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Pensions and Treasury.

Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

### Aims and Objectives

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA Managing Risk publication and
- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

### **Risk Management Philosophy**

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. For example, the Fund's investment strategy shows a preference for growth assets, which involves accepting a level of risk. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in light of the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

### **CIPFA and The Pensions Regulator's Requirements**

#### *CIPFA Managing Risk Publication*

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

#### *The Pension Regulator's Code of Practice*

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

#### ***"249B Requirement for internal controls: public service pension schemes***

*(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*

*(a) in accordance with the scheme rules, and*

*(b) in accordance with the requirements of the law.*

*(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*

*(3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.”*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code (Code of Practice number 9) in which they encourage scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator is also required to issue one or more codes of practice covering specific matters relating to public service pension schemes. The Pensions Regulator has issued such a code (Code of Practice number 14), which includes guidance on internal controls. This recommends scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data is managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

### **Application to the London Borough of Croydon Pension Fund**

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights

how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

### Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions and Treasury is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

### The London Borough of Croydon Pension Fund Risk Management Process

The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:



#### 1. Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

## ***2. Risk Analysis & Evaluation***

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the London Borough of Croydon's Risk Matrix on the next page.



Risk Matrix

		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

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

### **3. Risk Response**

The Head of Pensions and Treasury will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

### **4. Risk Monitoring & Review**

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Committee. In monitoring risk management activity, the Committee will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to be learned for the future assessment and management of risks.

### **5. Risk Reporting**

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on an annual basis to the Pension Committee.

The Pension Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks.

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pension Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it would be included in the Risk Register.

### **Key risks to the effective delivery of this Policy**

The key risks to the delivery of this Policy are outlined below. The Pension Committee will monitor these and other key risks and consider how to respond to them.

## APPENDIX A

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Committee and/or local Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately

### Costs

All costs related to this Risk Policy are met directly by the Fund.

### Approval, Review and Consultation

This Risk Management Policy will be approved at the London Borough of Croydon Pension Committee meeting on 5 December 2017. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

### Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Nigel Cook  
London Borough of Croydon  
Head of Pensions & Treasury  
Bernard Weatherill House  
8 Mint Walk  
Croydon  
CR0 1EA

E-mail - [nigel.cook@croydon.gov.uk](mailto:nigel.cook@croydon.gov.uk)  
Telephone - 020 8726 6000

Further information on the the London Borough of Croydon Pension Fund can be found at:  
[pensions@croydon.gov.uk](mailto:pensions@croydon.gov.uk)

This page is intentionally left blank

# Agenda Item 9

<b>REPORT TO:</b>	<b>LOCAL PENSION BOARD</b> <b>11 January 2017</b>
<b>SUBJECT:</b>	<b>Review of Risk Register</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson, Executive Director Resources and Section 151 Officer</b>
<b>LEAD MEMBER:</b>	<b>Councillor Simon Hall , Cabinet Member for Finance and Treasury</b>
<b>PERSON LEADING AT THE BOARD MEETING:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>

## **1. EXECUTIVE SUMMARY**

- 1.1 This report was referred to the Pension Committee on 5 December 2017. The report provided the Committee with the current risk register and invited comment from Members on the contents.
- 1.2 Board members are invited to consider the submitted papers for this item and review and comment on their contents.

## **2. RECOMMENDATION**

- 2.1 To note the papers submitted to the 5 December 2017 Pension Committee attached to this report.
- 2.2 To comment on the contents contained therein and report back to the Pension Committee.

---

**CONTACT OFFICER:**

James Haywood,  
Senior Democratic Services and Governance Officer  
020 8726 6000 x63319

**ATTACHMENTS:**

Report: Review of Risk Register report

Appendix A: Risk Register document

# Croydon Council

<b>REPORT TO:</b>	<b>Pension Committee</b> <b>5 December 2017</b>
<b>SUBJECT:</b>	<b>Review of the Risk Register</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
<b>FINANCIAL SUMMARY:</b> Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>	

## 1. RECOMMENDATIONS

- 1.1 The Committee is asked to note the contents of the Pension Fund's 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. This report presents the current risk register for the Committee's consideration.

## 3. DETAIL

- 3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording all relevant risk scenarios, together with an assessment of their likelihood and impact and the appropriate mitigations. This report provides the Committee with a report covering risks relating to governance, funding, assets and liabilities, and operational risks.
- 3.2 The Committee is invited to comment upon whether it considers this list sufficiently exhaustive, whether the assessment of each risk matches its perception and to comment on the adequacy of future and existing controls.

3.3 The risk register will be reviewed periodically and brought back to the Committee for its consideration twice each year – the register was most recently reviewed in December 2016. Members will be familiar with the corporate risk register: this Pension Fund risk register is distinct from that document and an innovation in that previously the Committee has not had the opportunity to formally track risks relating to the Fund and Scheme in such a comprehensive manner.

3.4 The main change to the register, apart from refreshing and updating the status of existing risks, is the addition of the risk around the adoption of the second Markets in Financial Instruments Directive (MiFID II). Together with Brexit and the impact of the Trump administration on US economic growth, comprise the most significant risks currently facing the Croydon Pension Fund. The register is appended to this report – it shows only those risks that are scored 12 or higher in the current year; risks are rated on a scale of 1 to 5 on likelihood and impact giving a range of potential scores between 1 and 25.

#### **4 FINANCIAL CONSIDERATIONS**

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

#### **5. OTHER CONSIDERATIONS**

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

#### **6. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

6.1

6.2

---

#### **CONTACT OFFICER:**

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

**BACKGROUND DOCUMENTS:** None

**APPENDIX A:** Pension Fund Risk Register



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
<b>Governance Risks</b>									
There is a current risk that academies are not abiding by their statutory responsibilities as Scheme employers. This involves not transmitting information about staff, which means that pension benefits cannot be calculated.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis.	3	4	12	Consistent monitoring and a robust approach should ensure that relationships and therefore also the effectiveness of communications will improve.	3	3	9
If other scheme employers cease 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	5	15	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk.	3	4	12
<b>Funding - Assets and Liabilities</b>									
The Fund's invested assets are not sufficient to meet its current or future liabilities.	Nigel Cook	A formal actuarial valuation is carried out every three 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.	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.	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.	Matthew Hallett	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. The Council is currently forward funding the Pension Fund which provides a buffer. This cash will be invested in liquid assets to mitigate this risk.	3	4	12	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives and are in the process of amending the current policy of reinvesting dividend income to make up the shortfall. Investments have been identified that are dividend yielding.	3	2	6

<p>There is a current risk that academies are not paying over contributions, which involves the administering authority in incurring unnecessary costs.</p>	<p>Governance and Compliance Manager</p>	<p>The authority has retained legal advisors to mitigate this risk, possibly through legal channels.</p>	<p>3      5      15</p>	<p>This is likely to be an issue requiring attention for some time.</p>	<p>3      5      15</p>
<p><b>Investment Risks</b></p>					
<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 alternates - which potentially leaves the Fund exposed to the possibility that class of assets will underperform relative to expectation.</p>	<p>Matthew Hallett</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. It is recognised that the portfolio is currently overweight equities.</p>	<p>4      4      16</p>	<p>A new asset allocation was agreed in September 2015 and Officers are working on moving towards that allocation to remove the current overweight position towards equities.</p>	<p>5      2      10</p>
<p>In response to the requirement to pool LGPS assets Croydon has opted to join the London group and invest in certain assets through the London CIV. As this is an untried investment route there are inevitably risks and areas of uncertainty.</p>	<p>Nigel Cook</p>	<p>Extensive due diligence has been undertaken by the consultants involved in establishing the CIV.</p>	<p>4      3      12</p>	<p>As a second wave investor the Pension Fund will have the opportunity to learn from others' experiences. Progress towards funding the CIV will be carefully monitored.</p>	<p>3      2      6</p>
<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>Matthew Hallett</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>Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18</p>	<p>4      3      12</p>

<p>There are a number of current specific geopolitical risks. The administration of US President Trump can be considered an unknown factor in so far as its impact on the US economy. To date this has been largely benign and the US markets have reacted positively. Other ongoing concerns include the impact of Brexit, the Euro crisis, the growth of the Chinese economy and the impact of populist movements.</p>	<p>Matthew Hallett</p>	<p>Equities have performed well to the extent that the Fund is currently over-weight in the asset class. This is being addressed by moving cash into alternate asset classes. Currency hedging is an option to address potential volatility as is some form of synthetic hedging.</p>	<p>4                      3                      12</p>	<p>By 2019 the overweight position in equities should have been invested in alternate asset classes thus reducing this risk.</p>	<p>3                      2                      6</p>
<p><b>Operational Risks</b></p>					
<p>The introduction of the second Markets in Financial Instruments Directive (MiFID II) this year presents a grave challenge to local authorities. As things stand all Local authorities including Croydon will be reclassified as retail clients from January 2018 under the terms of this Directive. Croydon will have to opt up to professional status otherwise there will be a fundamental impact on the team's ability to manage the Fund. The final criteria for opting up will be set by the FCA and each investment manager will need to assess Croydon against criteria before allowing Croydon to invest. As yet it is unclear whether or not Croydon will initially meet the criteria and what needs to be in place to meet it on an ongoing basis.</p>	<p>Nigel Cook</p>	<p>Applications have been made to all counter-parties affected by the Directive. By the end of November half had been accepted. Counter-parties have only asked for minor clarifications and officers have received positive feedback suggesting that the process is working smoothly and there is a high likelihood of a positive outcome for this exercise.</p>	<p>4                      3                      12</p>	<p>In the long-run the process that has been developed in-house should allow the Pension Fund to be treated as a professional investor.</p>	<p>3                      2                      6</p>

This page is intentionally left blank

<b>REPORT TO:</b>	<b>LOCAL PENSION BOARD</b> <b>11 January 2017</b>
<b>SUBJECT:</b>	<b>Asset Transfer to London CIV</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson, Executive Director Resources and Section 151 Officer</b>
<b>LEAD MEMBER:</b>	<b>Councillor Simon Hall , Cabinet Member for Finance and Treasury</b>
<b>PERSON LEADING AT THE BOARD MEETING:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>

## **1. EXECUTIVE SUMMARY**

- 1.1 This report was referred to the Pension Committee on 5 December 2017. The report summarises the progress achieved towards pooling Pension Fund Assets in the London CIV. Over half of the current assets can be treated as being pooled with another 30% being considered for transfer to sub-funds in the future..
- 1.2 Board members are invited to consider the submitted papers for this item and review and comment on their contents.

## **2. RECOMMENDATION**

- 2.1 To note the papers submitted to the 5 December 2017 Pension Committee attached to this report.
- 2.2 To comment on the contents contained therein and report back to the Pension Committee.

---

**CONTACT OFFICER:**

James Haywood,  
Senior Democratic Services and Governance Officer  
020 8726 6000 x63319

**ATTACHMENTS:**

Report:

Annual Report on the Progress of Asset Transfer to  
the London CIV

# Croydon Council

<b>REPORT TO:</b>	<b>Pension Committee</b> <b>5 December 2017</b>
<b>SUBJECT:</b>	<b>Annual Report on the Progress of Asset Transfers to the London CIV</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> <b>Sound Financial Management:</b> The pooling of LGPS Pension Fund assets is meant to drive out savings and allow for greater flexibility and responsiveness in the investment process.	
<b>FINANCIAL SUMMARY:</b> The Croydon LGPS Pension Fund is valued at £1.1 BN. Prudent stewardship and sound investment are essential to ensure current and future liabilities can be met.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>	

## 1. RECOMMENDATIONS

- 1.1 The Committee is asked to note this report.

## 2. EXECUTIVE SUMMARY

- 2.1 This report summarises the progress achieved towards pooling Pension Fund Assets in the London CIV. Over half of the current assets can be treated as being pooled with another 30% being considered for transfer to sub-funds in the future.

## 3. DETAIL

- 3.1 The Department for Communities and Local Government (DCLG) has prepared guidance to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Pension Committee adopted its Investment Strategy Statement at its meeting on 20 June 2017, (Item A8 refers).
- 3.2 Regulation 7(2)(d) covers the approach to pooling investments, including the use of collective investment vehicles and shared services

- 3.3 It states that all authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue. For Croydon and indeed all London Boroughs, this is the London CIV (a Collective Investment Vehicle).
- 3.4 The Regulations require that each administering authority should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account. These details have been published by the London CIV.
- 3.5 The Regulations then go on to state that the authority must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board.
- 3.4 The Croydon Fund comprises three asset classes plus an allocation to cash. These asset classes are: equities; fixed income; and alternates.
- 3.5 **Equities:** The Fund's allocation to listed equities is managed by Legal and General Investment Managers (LGIM) and invested in the L&G World Developed (Ex Tobacco) Index Fund. This represents 53.4% of the Fund. LGIM count all LGPS administering authorities invested in this fund as pooled and it is understood that DCLG accept this aggregation for the purposes of this regulation.
- 3.6 **Fixed Income:** The Fund's allocation is invested with Wellington and Aberdeen Standard Life. The London CIV has a plan to open a number of sub-funds for this asset class and this was described in a report to this Committee's 19 September 2017 report (Item 13). The timeline for opening these sub-funds was from December 2017 to May 2018 with a number of dates yet to be confirmed. This asset class represents 17.1% of the Fund.
- 3.7 **Alternates:** This asset class comprises Infrastructure, Private Equity and Property, and makes up 29.4% of the Fund. As described in the report referenced above, the London CIV does not currently have any plans to open for these sub-funds, save a reference to infrastructure in the summer of 2019. These investments are characterised by their illiquidity, the length of their duration and the fact that their legal structures do not readily lend themselves to this pooling approach.
- 3.8 In summary therefore, the Croydon Fund has currently over half of its assets in some sort of pooling arrangement. Nearly a third of the assets will be available for pooling when the appropriate sub-funds are established. The balance may not be suitable for pooling in the short to medium run.

## 4 FINANCIAL CONSIDERATIONS

- 4.1 There are no further financial considerations flowing from this report.



## **5. OTHER CONSIDERATIONS**

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

## **6. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.
- 6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.

**Approved by:** Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

---

### **CONTACT OFFICER:**

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

### **BACKGROUND DOCUMENTS:**

None.

This page is intentionally left blank

## Croydon Council

<b>REPORT TO:</b>	<b>Local Pension Board 11 January 2018</b>
<b>SUBJECT:</b>	<b>Forward Plan, 2018 / 2019</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<b>Sound Financial Management:</b> In order to demonstrate effective governance the Board should have a clear plan of what it needs to achieve and how this will be delivered.	
<b>FINANCIAL SUMMARY:</b> Good governance leads to better decisions which should benefit the Council through better investment performance for the Pension Fund.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

### 1 RECOMMENDATIONS

1.1 The Board is asked to note the contents of this report and to comment and make amendments as is necessary.

### 2 EXECUTIVE SUMMARY

2.1 This report sets out a suggested work plan for the Board, inviting suggestions for amendments or additions.

### 3 DETAIL

3.1 The role of the Local Pensions Board, (LPB), as defined by section 5(1) and (2) of the Public Services Pensions Act 2013, is to:

- Assist the Administering Authority (Croydon Council) in its role as a Scheme Manager of the Scheme;
- To secure compliance with the Scheme Regulations and any other legislation relating to the governance and administration of the LGPS;
- To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- In such other matters as the LGPS regulations may specify;
- Secure effective and efficient governance and administration of the LGPS for the Fund;

- Provide the Scheme Manager with such information as is required to ensure any member of the LBP or person to be appointed to the LPB does not have a conflict of interest.
- 3.2 In order for the Board to carry out this role a piece of work is required to assist the Board in devising a Workplan which identifies which key activities the Board should be carrying out (and when) in order to demonstrate effective performance of its role.
- 3.3 Subject to the considerations of this Board, the following is a suggestion for the topics to be covered over the next period (noting that meeting dates have not all been confirmed). Each meeting will also be able to review the papers presented to the Pension Committee, which typically will meet a month before.:

**29 March 2018**

Review of savings achieved / cost reductions by London CIV  
LGPS Scheme Advisory Board survey results

**July 2018**

Administration Key Performance Indicators  
External Auditors Report  
Review Terms of Reference and membership

**October 2018**

Risk Register Review  
Annual Report of the Board (for 2017/2018)

**January 2019**

Administration Key Performance Indicators  
Cost transparency

**April 2019**

Risk Register Review  
Review of savings achieved / cost reductions by London CIV

The Board is invited to add any items to this schedule that they feel should be included.

- 3.4 A key component of the work of the Board is the maintenance of relevant knowledge, refreshing skills and access to informed experts. To this end training opportunities will be offered to the Board throughout the year. The Board is invited to offer ideas for subjects and officers will develop these into sessions which will be open to the Board and to Pension Committee members.

**4 CONSULTATION**

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

**5 FINANCIAL CONSIDERATIONS**

- 5.1 The Board ensures effective and efficient governance and administration of the LGPS for the Pension Fund. This ensures that costs to the authority are effectively managed.

**7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

7.1 This report does not contain any information which will not be made publically available by being published on the Council's Pension Fund website.

---

**CONTACT OFFICER:**

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

This page is intentionally left blank

# Agenda Item 12

<b>REPORT TO:</b>	<b>LOCAL PENSION BOARD</b> <b>11 January 2018</b>
<b>SUBJECT:</b>	<b>Agenda Papers of the last Pension Committee</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson, Executive Director Resources and section 151 Officer</b>
<b>LEAD MEMBER:</b>	<b>Councillor Hall, Cabinet Member for Finance and Treasury</b>
<b>PERSON LEADING AT THE BOARD MEETING:</b>	<b>Michael Ellsmore, Chair of Pension Board</b>

## 1. EXECUTIVE SUMMARY

- 1.1 At every Pension Board meeting the agenda papers from the previous Pension Committee are submitted for review. Attached at **Appendix A** are the Part A agenda papers from the Pension Committee held on 5 December 2017. Items 5, 6 and 7 of the agenda have been removed as these papers are considered as separate items in the agenda for the Board meeting.

## 2. RECOMMENDATION

- 2.1 To note the 5 December 2017 Pension Committee agenda papers attached to this report at **Appendix A**.

---

### CONTACT OFFICER:

James Haywood,  
Senior Democratic Services and Governance  
Officer  
020 8726 6000 x63319

### ATTACHMENTS:

Appendix A: 5 December 2017 Pension Committee Part A  
Papers

This page is intentionally left blank



# Pension Committee Agenda



To: Councillor Andrew Pelling (Chair)  
Councillor Patricia Hay-Justice (Vice-Chair)  
Councillors Simon Brew, Simon Hall, Maddie Henson, Yvette Hopley,  
Dudley Mead, Wayne Trakas-Lawlor, Gill Driver, Peter Howard and  
Isa Makumbi

Reserve Members: Jamie Audsley, Robert Canning, Sherwan Chowdhury,  
Luke Clancy, Pat Clouder, Badsha Quadir and Donald Speakman

A meeting of the **Pension Committee** which you are hereby summoned to attend,  
will be held on **Tuesday, 5 December 2017** at **10.00 am** in **Council Chamber,  
Town Hall, Katharine Street, Croydon CR0 1NX**

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

James Haywood  
020 8726 6000 x63319  
james.haywood@croydon.gov.uk  
www.croydon.gov.uk/meetings  
Monday, 27 November 2017

Members of the public are welcome to attend this meeting.  
If you require any assistance, please contact the person detailed above, on the  
righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at  
[www.croydon.gov.uk/meetings](http://www.croydon.gov.uk/meetings)

## **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 (Pages 5 - 8)**

To approve the minutes of the meeting held on Tuesday 19 September 2017 as an accurate record.

**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.

**5. Adoption of Risk Management Policy (Pages 9 - 22)**

**6. Review of Risk Register (Pages 23 - 28)**

**7. Annual Report on the Progress of Asset Transfer to the London CIV (Pages 29 - 32)**

**8. MiFID II Compliance Requirements (Pages 33 - 36)**

**9. Forward Plan (Pages 37 - 40)**

**10. Progress Report for Quarter Ended 30 September 2017 (Pages 41 - 50)**

**11. 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**

- 12. Part B Minutes of the Previous Meeting (Pages 51 - 52)**  
To approve the Part B minutes of the meeting held on Tuesday 19 September 2017 as an accurate record.
  
- 13. Part B Progress Report for Quarter Ended 30 September 2017 (Pages 53 - 86)**

This page is intentionally left blank

## Pension Committee

Meeting held on Tuesday 19 September 2017 at 10:00am in the Council Chamber, the Town Hall, Katharine Street, Croydon CR0 1NX

### DRAFT MINUTES - PART A

Present: Councillor S Brew, Ms. G Driver, Councillor S Hall, Councillor P Hay-Justice (Vice Chair), Councillor M Henson, Councillor Y Hopley, Mr. P Howard, Mr. I Makumbi, Councillor D Mead, Councillor A Pelling (Chair), Councillor J Wentworth

In attendance: Elizabeth Jackson (Grant Thornton), Matthew Hallett (Pension Fund Investment Manager), Nigel Cook (Head of Pensions and Treasury), Mike Ellsmore (Chair, Local Pension Board), Daniel Carpenter (Aon Hewitt), Richard Simpson (Executive Director, Resources).

Apologies: None received.

### MINUTES - PART A

#### **A1 Minutes**

The minutes of the last meeting held on Tuesday 20 June 2017 were approved as a correct record of that meeting.

#### **A2 Disclosure of Interest**

Councillor Hay-Justice disclosed that her husband paid into an academy pension scheme.

#### **A3 Urgent Business (if any)**

There was no urgent business.

#### **A4 Exempt Items**

The allocation of business between Part A and Part B of the agenda was agreed as stated.

#### **A5 Progress Report for Quarter Ended 30 June 2017**

The Head of Pensions and Treasury introduced the report to the Committee. The Committee discussed the recent meeting held with Legal and General. Arising from that meeting the committee had a

detailed discussion regarding a new, larger pooled fund that it was proposed the scheme's investments were moved to. By the nature of the larger pooled fund, low cost fx hedging would be available on that fund, if so required. After a detailed consideration of the relevant factors, there was consensus among Committee Members that the investments should be moved to the Legal and General pooled ex-tobacco fund.

The Committee also discussed whether to use Wells Fargo for the Fund's emerging markets investments, particularly in the context of further new fraud scandals at the company. After lengthy questioning on the issue, the Committee noted that officers had previously been given discretion to fulfil the Committee's asset allocation strategy as regards to emerging markets investments. The Committee agreed that an opportunity for all members to meet with Wells Fargo would be useful ahead of a further discussion at the next Committee meeting on the matter. The Chair of the Committee confirmed that a formal letter would be written to Wells Fargo to receive assurances over their governance arrangements in relation to the recent scandal.

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

#### **A6 Scheme Advisory Board Consultations**

The Head of Pensions and Treasury introduced the report and the Committee **RESOLVED** that:

- 1.1 The objectives set out in paragraph 3.4 of the report should be those adopted by the project that the Board will undertake;
- 1.2 The arrangements relating to the forum set out in paragraph 3.8 of the report are agreed.
- 1.3 That a session, such as set out in paragraph 3.9 of the report, would be helpful.

#### **A7 Changes to State Retirement Age**

The report for the item was introduced by the Head of Pensions and Treasury and the Committee **NOTED** the contents of the report.

#### **A8 Implementation of the Markets in Financial Instruments Derivative (MiFID II)**

The Head of Pensions and Treasury introduced the report to the Committee.

The Committee **RESOLVED**:

- 1.1 To note the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018;

1.2 To agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;

1.3. That, in electing for professional clients status, the Committee acknowledges and agrees to forgo the protections available to retail clients attached at Appendix A;

1.4 To delegate to the Executive Director of Resources (Section 151 Officer) the authority to make applications for elected professional client status on the authority's behalf and to determine the nature of the application on either a full or single service basis.

## **A9 Annual Report and Local Pension Board Report**

The Pension Fund's auditor from Grant Thornton introduced the audit finding report at Appendix B. The Chair of the Pension Board introduced the Board's annual report, attached at Appendix C, and the Committee requested that the Board's work on costs transparency would be made available to Committee Members.

The annual report (Appendix A) was circulated to Committee Members and introduced by the Head of Pensions and Treasury. Committee Members debated how best to communicate such Fund documents to scheme members who were not able to access the internet. The Committee agreed that the next time the membership were communicated with via letter, information on how to access such documents would be provided as part of the correspondence.

The Committee **RESOLVED** to:

1.1 Approve the submitted 2016/2017 Pension Fund Annual Report for publication on the Croydon Pension Fund's website.

1.2 Note the contents of the Audit Findings Report from the Fund's auditors.

1.3 Note the Annual Report of the Croydon Local Pension Board.

## **A10 Election of Pensioner Representatives to the Pension Committee**

The Chair opened the item by congratulating those candidates who had been elected. A concern was raised regarding the requirements to submit voters' national insurance numbers on ballot papers. The Committee were assured that the information was needed to prove eligibility to vote and the information was destroyed after validation of the election.

The elected pensioner-side members thanked Councillors and officers for obtaining the constitutional amendments required to provide a vote on the Committee for the representatives.

The Committee **RESOLVED** to endorse the result of the ballot and to

co-opt the two candidates with the greatest number of votes onto the Committee as members for a period of four years.

**A11            The Local Government Pension Scheme Advisory Board Code of Transparency**

The item was introduced by the Head of Pensions and Treasury and the Committee **NOTED** the contents of the report.

**A12            Local Government Pension Scheme Investment Pooling: Spring 2017 Progress Review**

An update was provided to the Committee by the Head of Pensions and Treasury. Members discussed the London Collective Investment Vehicle (CIV) and the Committee requested that further information on the CIV's proposed environmental, social and governance (ESG) sub-funds be provided at the next Committee meeting.

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

**A13            Exclusion of the Press & Public**

Councillor Pelling proposed, and Councillor Henson seconded, that the meeting move into Part B of the agenda and thus exclude the press and public from the remainder of the meeting.

The Committee **RESOLVED** to exclude the press and public for the remainder of the meeting.

The meeting finished at 12.03pm.



## Croydon Council

<b>REPORT TO:</b>	<b>Pension Committee 5 December 2017</b>
<b>SUBJECT:</b>	<b>The Markets in Financial Instruments Directive: Compliance and Requirements</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
Sound Financial Management: This report deals with the regulatory framework allowing the Pension Committee to be treated as a professional investor.	
<b>FINANCIAL SUMMARY:</b>	
Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>	

### 1. RECOMMENDATIONS

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

### 2. EXECUTIVE SUMMARY

- 2.1 This report details the tests applied under the Markets in Financial Instruments Directive with particular reference to the role of the Pensions Committee in decision making.

### 3. DETAIL

- 3.1 The Committee decided to opt to elect to professional investor status under the Markets in Financial Instruments Directive (MiFID II) at its September meeting (Item A9 refers).
- 3.2 In order to comply with the requirements of the Directive, the authority has to pass two tests. The first relates to the size of the Fund and is a simple hurdle. The second test is qualitative and it is that test that is the subject of this report.
- 3.3 The Qualitative Test comprises 5 sections: the decision making body; expertise, experience and knowledge; investment history and strategy; understanding risk; and support for investment decisions.

- 3.4 There are four decision making models described. This Committee fits into the third category, being 'Decisions delegated to committee ... with partial delegation to an officer.' The constitution of the Council describes the arrangements in detail.
- 3.5 Expertise, experience and knowledge refers to members of the committee. There are 8 questions:
1. Are members provided with a written brief on joining the committee?
  2. Are members provided with training on investment matters?
  3. Is the attendance of members at training monitored and recorded?
  4. Average hours of training over a 12-month period?
  5. Average hours at investment conferences over a 12-month period?
  6. Are members required to complete a self-assessment with regard to their knowledge of investments?
  7. Average number of years on this committee?
  8. Any other information?

It is difficult to know how high the hurdle has been set, although the return provided for this committee has been widely deemed sufficient, but these questions are helpful in understanding what the Directive, and by extension investment managers and counter-parties, are looking for in the composition of the committee.

- 3.6 Investment history and strategy is an analysis of the asset classes that the team has invested in over a period of time. The Pension Fund investment team are able to demonstrate a breadth of experience over a substantial length of time.
- 3.7 Understanding risks relies on the Risk Management Policy and corporate and Pension Fund Risk Registers.
- 3.8 The final section relates to the support for investment decisions taken by the committee. This relies on the experience and qualifications of the Pension Fund investment team and the investment advisory and consultancy team retained by the Council. Currently this is AON Hewitt.
- 3.9 This test needs to be repeated periodically and each time the makeup of the Committee changes, key personnel change, or new investments are considered. It is not immediately clear how approaches from fund managers will be affected by this change.
- 3.10 In total, and to date, officers have applied to opt up to 17 bodies covered by the Directive. This comprises 14 fund managers, plus the Fund's investment advisors, the London CIV and the Fund's custodian. At the time of writing 10 of these counter-parties had agreed to the election to opt up. The deadline for this process is effectively the end of December 2017.
- 3.11 In summary therefore, the Committee is invited to consider the 8 questions outlined in paragraph 3.5 above, and how an adequate level of expertise, experience and knowledge can be maintained.

#### **4 FINANCIAL CONSIDERATIONS**

- 4.1 There are no further financial considerations flowing from this report.

## **5. OTHER CONSIDERATIONS**

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

## **6. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.
- 6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.
- 6.3 The Markets in Financial Instruments Directive II (MiFID II) is due for implementation on 3 January 2018. The policy statement from the Financial Conduct Authority (FCA) in respect of the MiFID II sets out rules for the implementation of the Directive.
- 6.4 The re-classification of local authorities under the MiFID II is at odds with the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016. The FCA has recognised that the reclassification of local authorities may not be in the best interests of their pension funds and has given the Council an option to opt up to "elective professional" client status subject to satisfying certain criteria. To enable the Council to obtain the best possible investments for the Pension Fund the Committee has taken up the option to opt up to "elective professional" client status. The MIFID II sets out certain tests with which the Council must comply. This report relates to the qualitative assurance test.
- 6.5 When exercising its functions in relation to the Pension Fund the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty).

**Approved by:** Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

---

**CONTACT OFFICER:**

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

**BACKGROUND DOCUMENTS:** None

## Croydon Council

<b>REPORT TO:</b>	<b>Pension Committee 5 December 2017</b>
<b>SUBJECT:</b>	<b>Forward Plan</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
Sound Financial Management: Ensuring that the pension fund is being given appropriate guidance and direction through the governance of the Pension Committee.	
<b>FINANCIAL SUMMARY:</b>	
There are no direct financial consequences to this report. However the implications of decisions taken by this Committee can be significant for the Revenue Account of the Council.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>	

### 1. RECOMMENDATIONS

- 1.1 That the Committee note the business plan for the next year.

### 2. EXECUTIVE SUMMARY

- 2.1 It is recommended best practice for the Pension Committee (the Committee) to regularly review the forward plan. This report proposes a revised 2017/2018 forward plan which forms a business plan for the Committee and a draft for the year 2018/2019.

### 3. DETAIL

- 3.1 The forward plan below sets out an agenda for each quarterly meeting to be held in 2017/2018 and 2018/2019; however, further items may be added as required by senior officers in consultation with the Chair. There may be a need to add items in response to changing circumstances, such as any issues thrown up by the government's decision to require funds to pool assets, changes to the investment regulations or if there are further global market events requiring actions from the Committee.

3.2 As a separate matter, the Committee has decided to visit each of the portfolio's fund managers over a twelve to fifteen month cycle. This schedule will be refreshed and reported to this Committee; the list below represents the visits that have been arranged.

Wellington (Fixed interest)	29th November, 2017
Schroders (Commercial property)	14th December, 2017
Pantheon (Private Equity)	24th January, 2018
Equitix (Infrastructure)	21st February, 2018
Knightsbridge (Private Equity)	21st March, 2019

3.3 The Committee has committed to a programme of training and in part, this can be delivered by sessions following on from or preceding the business part of the meeting. The content of training will be informed by the direction of future legislation; and the choice of investment vehicles.

3.4 With the introduction of the Local Pensions Board, some issues that previously were considered by the Committee are also being addressed by that body. This includes:

- Review of strategy and policy documents such as the Funding Strategy Statement and Investment Strategy Statement;
- Key Performance Indicators;
- Engagement with stakeholders;
- ESG (Ethical, Social and Governance) and voting matters;
- Assessment of the performance of professional advisors;
- Consideration of Myners principles;
- Matters relating to fees; and
- Other matters of topical interest.

3.5 Matters relating to admission agreements, schools converting to academies and other scheme employers will be reported to the Committee on an ad hoc basis.

### **3.6 The Pension Committee 2017-2018 Business Plan**

#### **3.6.1 13 March 2018**

- Progress report quarter ending December 2018 performance
- KPIs
- Award of contracts under the National LGPS Framework for legal services and investment advice consultancy services
- Report back from Pensions Board

### **3.7 The Pension Committee 2018 – 2019 Business Plan**

#### **3.7.1 5 June 2018**

- Progress report quarter ending March 2018 performance
- Risk Register review
- Forward Plan review
- Review of the Investment Strategy Statement

- Review and adopt:
  - Discretion's policy for the Council;
  - Training policy for the Committee, Board and officers;
  - Communications Policy; and
  - Terms of Reference for the Committee.
- To consider the Pension Fund Audit Plan

### **3.7.2 18 September 2018**

- Progress report quarter ending June 2018 performance
- KPIs
- Draft Annual Report
- External Auditors Report
- Local Pension Board Annual Report
- Report back from Pensions Board
- Review and adopt:
  - Policy for Employers leaving the Fund;
  - Internal Disputes Resolution Policy;
  - Breaches of the Law policy;
  - Administration Strategy;
  - Conflicts of Interest Policy (for the Pensions Board); and
  - Local Pension Board Annual Review.

### **3.7.3 4 December 2018**

- Progress report quarter ending September 2018 performance
- Risk Register review
- Forward Plan review
- Review London CIV against Investment Strategy Statement (ISS) guidance (regulation (7) (2) d)
- Review of ESG investment principles for inclusion in ISS

### **3.7.4 12 March 2019**

- Progress report quarter ending December 2018 performance
- Risk Register review
- Forward Plan review
- Report back from Pensions Board
- Review the ISS

3.8 This forward plan forms the business plan for the Committee. The Committee are asked to consider any changes necessary to the forward plan and subject to these, agree its adoption.

## **4 FINANCIAL CONSIDERATIONS**

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

## **5. OTHER CONSIDERATIONS**

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

## **6. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.
- 6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.
- 6.3 The proposed Forward Plan accords with best practice and will assist the Committee with its statutory responsibilities.
- 6.4 When exercising its functions in relation to the Pension Fund the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty).

**Approved by:** Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

---

### **CONTACT OFFICER:**

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

**BACKGROUND DOCUMENTS:** None



## Croydon Council

<b>REPORT TO:</b>	<b>PENSION COMMITTEE 6 December 2017</b>
<b>SUBJECT:</b>	<b>Progress Report for Quarter Ended 30 September 2017</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson Executive Director of Resources</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<p><b>Sound Financial Management:</b> 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>	
<b>FINANCIAL SUMMARY:</b>	
<p>This report shows that the market value of the Pension Fund (the Fund) investments as at 30 September 2017 was £1,113.9m compared to £1,102.1m at 30 June 2017, an increase of £11.9m and a return of 1.27% over the quarter. The performance figures in this report have been compiled from data provided by each fund manager and are quoted net of fees. Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor AON Hewitt.</p>	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>	

<b>1</b>	<b>RECOMMENDATIONS</b>
1.1	The Committee are asked to consider and note the contents of this report.

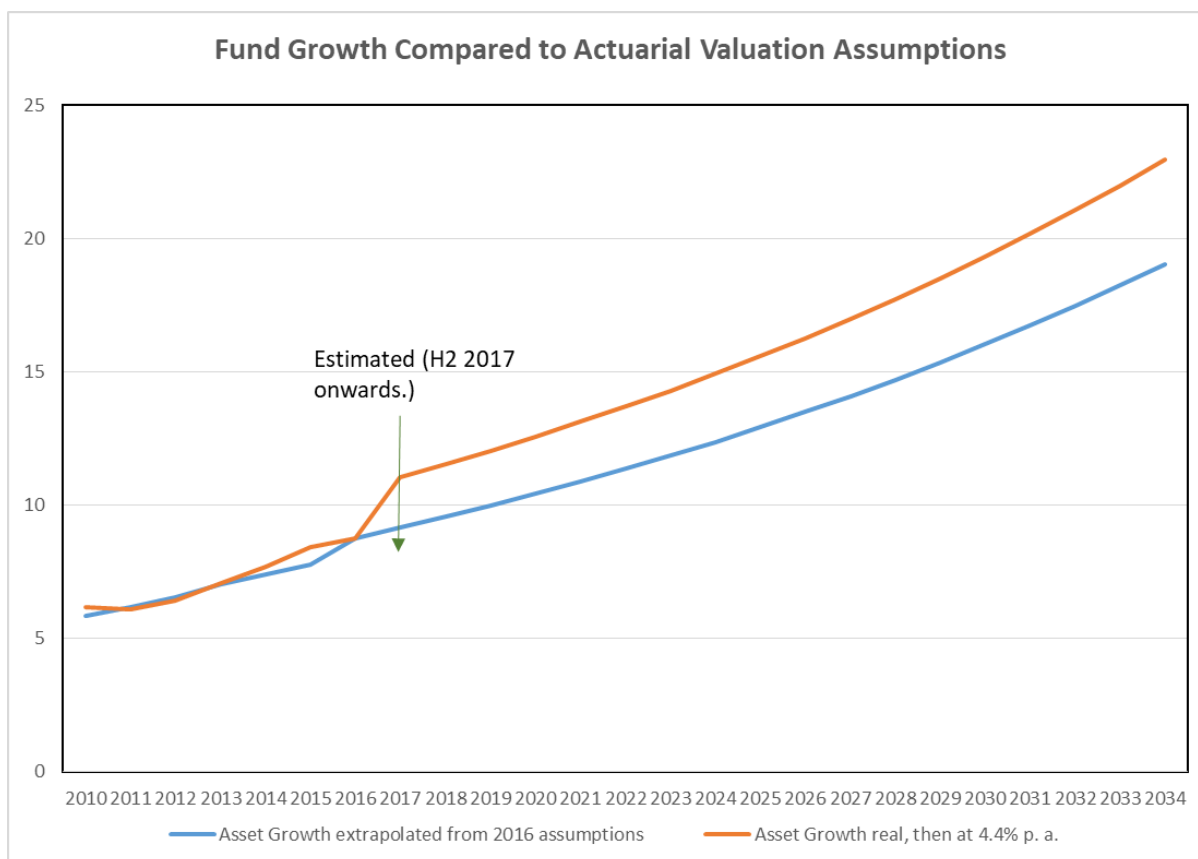
## **2 EXECUTIVE SUMMARY**

- 2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 30 September 2017. The report falls into three parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied. 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 for readers who are interested in that deeper analysis.

## **3 DETAIL**

### **Section 1: Performance**

- 3.1 The 2016 Triennial Actuarial Valuation has recommended an asset outperformance assumption of 2.2% over gilt yields, meaning an asset return assumption, otherwise described as the discount rate, of 4.4%. The valuation also assumes that the funding gap will be closed over a 22 year period. However, as a risk based model has been adopted, the recovery period is less critical. 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 assuming other assumptions remain constant, the funding gap will reduce.
- 3.2 The following graph has been compiled from this information. The blue line shows the expected track of the value of assets growing in line with the 2016 valuation assumptions. This will be adjusted after subsequent valuations. The orange line shows the actual value of the Fund to date and plots the course of growth over subsequent years using the same assumptions. This is a simplistic measure of the success of the strategy which does not take account of other variables, such as changes in demographic factors, wage inflation forecasts and other assumptions and that does not reflect changes in cash contributions nor movements in the gilt yield curve. However it is valuable as a tool to help track whether the direction of travel is in the right direction.



3.3 Details of the performance of individual components of the portfolio are summarised in Appendix A. The returns for L&G, Standard Life, Wellington and Schrodgers are calculated on a time series basis. This basis negates the effect of any cash flows made to and from a manager’s portfolio (the reason being that the timing of investments and disinvestments is not the manager’s decision) and so allows the performance of those managers to be compared fairly with their benchmarks and peers. The returns for the other managers are calculated using the Internal Rate of Return (IRR). Using the IRR considers the effect of cash flows and this is deemed appropriate for these managers as the timing of investments is determined by the manager. Due to the nature of these investments, little attention should be paid to the performance for immature investments; Temporis, GIB, Access, Markham Rae, North Sea Capital and M&G, and more attention should be made to the performance since inception for the more mature investments; Equitix, Knightsbridge and Pantheon. The whole of fund return uses the IRR as this is in line with the Actuary when calculating the valuation. It should be noted that the portfolio has been built on the premise that diversification mitigates the impact of return volatility, the performance of individual investments is less important than the return of the Fund in aggregate and certainly cannot be assessed over less than a full cycle, and the duration of the cycle will vary from asset to asset.

**Section 2: Asset Allocation Strategy**

- 3.4 A new asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute .A29/15 refers). Recognising that there are a number of factors dictating the delivery timeframe for the asset allocation, namely: the selection process and time taken to undertake due diligence; the revision of the LGPS investment regulations; and the role of the London CIV; delivering the revised asset allocation remains a work in progress.
- 3.5 This asset allocation will give rise to a portfolio which can be broken down as follows:

Equities including allocation to emerging markets.	42%	+/- 5%
Fixed interest	23%	+/- 5%
Alternates	34%	+/- 5%
<i>Comprised of:</i>		
Private Equity	8%	
Infrastructure	10%	
Traditional (Commercial) Property	10%	
Private Rental Sector (Residential Property)	6%	
Cash	1%	
	100%	

### 3.6 Progress towards revised asset allocation

Since the revised asset allocation was agreed £54.2m has been disinvested from global equities and £32.2m from hedge funds. This along with new cash to the fund has been invested; £19.9m in private equity, £62m in infrastructure, £25m in PRS and £16.4m in property. A further £15m has been disinvested from equities since this reporting period.

**3.6.1 Private Equity** – During the quarter net contributions of £0.4m were paid to our existing private equity managers. Positive returns over the quarter meant the allocation increased from 8.1% to 8.2%. No further new commitments are currently required in private equity portfolio. The allocation is considered on target.

**Allocation:** achieved target allocation early.

**3.6.2 Infrastructure** – During the quarter a net investment of £3.9m was drawn from existing managers and £11.3m was drawn from Access Capital Partners which was appointed during the quarter following completion of legal due diligence. This along with a positive contribution to returns meant the allocation percentage increased from 7.7% to 9.0%. Post quarter end legal due diligence has been completed on our second new infrastructure manager; I-Squared. We are expecting approximately £5m to be drawn by I-Squared in the next quarter.

**Allocation:** We are expecting to meet our target allocation by 30 June 2018 which is ahead of the original planned date of 31 December 2019.

**3.6.3 Traditional Property** – During the quarter £10m was transferred to Schroders, who have identified opportunities to deploy the capital. This has brought the allocation back to the 10% target.

**Allocation:** On target.

**3.6.4 Private Rental Sector** - The Fund signed a commitment of £25m to the M&G UK Residential Fund in January 2016 and during the quarter ending 31 December 2016 signed a commitment for a further £35m with M&G. The first tranche of £25m has now been fully drawn and the allocation increased from 1.8% to 2.2% over the quarter. We anticipate the second tranche drawn over the second half of 2018.

**Allocation:** on target to meet allocation by 31 December 2018 as planned.

**3.6.5 Global Equities** – The Fund's allocation to equities remained overweight at 53.4%

when compared to the previous quarter of 53.0%, a movement of 0.4 %. Equities provided the most positive gains over the quarter, although these have been much lower than experienced over the previous year. Members will be aware that the asset allocation strategy recognized that moving from the previous asset allocation would be a gradual process, driven by the availability of opportunities. It is also recognized that the preservation of returns is important. Consequently the current over-weight position in equities represents a positive benefit to the Fund. This must intentionally be a short-term position and the transfer of funds to other alternate asset classes, as described above, is part of the process of locking in some of the recent returns.

At the previous Committee meeting members agreed to transfer the equity holdings from the L&G FTSE4Good tracker fund to the L&G World Developed (Ex Tobacco) Index Fund. The reasons for doing this were to reduce concentration risk by increasing the number of stocks covered for investment, a reduction in management fee from 12bps to 6 bps and to move to a fund which is considered as fulfilling the criteria for the requirement to pool assets. In addition converting to a pooled arrangement with L&G means the passive currency hedging can be implemented fairly easily and cheaply if desired. The transfer will take place during the next quarter.

**3.6.7 Fixed Interest** – The Fund has moved below the lower end of the target range in its fixed income allocation and this is largely due to outperformance of other assets. Officers are exploring alternate opportunities to our traditional bond portfolio including debt managers. The London CIV is currently in the process of putting together a Fixed Interest offering which Officers are following closely.

**3.7** 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 30 September 2017

	Valuation at 30/06/2017 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 30/09/2017 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
<b>Equities</b>					<b>53.4%</b>	<b>42%</b>
Legal & General FTSE4Good	584,521	-	10,150	594,670		
<b>Fixed Interest</b>					<b>17.1%</b>	<b>23%</b>
Standard Life	128,656	-	180	128,477		
Wellington	62,538	-	210	62,328		
<b>Infrastructure</b>					<b>9.0%</b>	<b>10%</b>
Access	-	11,291	241	11,049		
Temporis	9,705	2,366	30	12,041		
Equitix	48,869	1,972	900	51,741		
Green Investment bank	25,836	453	140	25,242		
<b>Private Equity</b>					<b>8.2%</b>	<b>8%</b>
Knightsbridge	18,903	736	424	19,215		
Pantheon	59,810	488	1,310	60,632		
Access	10,023	89	317	10,430		
North Sea	855	-	26	881		
Markham Rae	1	49	49	1		
<b>Property</b>					<b>10.0%</b>	<b>10%</b>
Schroders	98,944	10,000	2,456	111,401		
<b>Property PRS</b>					<b>2.2%</b>	<b>6%</b>
M&G	24,394	-	105	24,499		
<b>Cash</b>					<b>0.1%</b>	<b>1%</b>
Cash	29,008	27,671	4	1,341		
<b>Fund Total</b>	<b>1,102,060</b>	<b>2,109</b>	<b>13,994</b>	<b>1,113,945</b>	<b>100%</b>	<b>100%</b>

- 3.8 The Fund remains over-weight to equities and under-weight to fixed interest to the extent that the proportion in these asset classes is outside the allowable variance. Officers believe that this over-weight position continues to benefit the Fund and this scenario will persist in the short- to medium-term. However this position is not consistent with the Fund investment strategy. Officers estimate that the commitments made in Infrastructure and PRS outlined above will result in an extra £50-70m being transitioned from equities to alternatives over the next 12 months and the pension fund will have a net cash outflow of approximately £18m as a result of the advance payment of deficit contributions. The London CIV is being considered in order to correct the under-weight position in fixed interest.

### **Section 3: Risk Management**

- 3.9 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. Dependent upon that are of course a number of issues.
- 3.10 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.
- 3.11 In terms of the Pension Fund investment strategy in relation to the global picture, officers believe:
- The domestic US economy will continue to grow at a healthy rate.
  - China will also continue to demonstrate strong growth and this will be critical in stoking the continued expansion of emerging markets. By and large emerging market revenue account issues have been resolved.
  - The European economy is showing positive signs of growth, especially when compared to the UK.
  - While the Brexit negotiations are ongoing sterling will remain at depressed levels. Officers are continually considering the merits of currency hedging.
- 3.12 The role of Central Banks in guiding local economies and that specific impact on the global economy remains an area for concern. Interest rates and inflation both represent significant headwinds impacting on the valuation of liabilities and the investments designed to match them. Specifically Officers are concerned by the increasing threat of inflation and all infrastructure investments the Fund has committed to have an inflation linkage built into the return profile.
- 3.13 At the previous meeting the Committee agreed to move the equity holdings from the L&G FTSE4Good tracker fund to the L&G World Developed (Ex Tobacco) Index Fund. The main reason for doing this was to reduce concentration risk which had been identified. The L&G World Developed (Ex Tobacco) Index Fund covers approximately 1,800 stocks compared to the FTSE4Good which covered approximately 900 stocks.

- 3.14 The portfolio term Brexit encompasses a number of risks. Immediate concerns that the UK economy would register a shock have not materialised. However, the outcome of the snap election has done little to quieten concerns. The fall in the relative value of sterling has masked a long term issue around productivity and actually benefitted the portfolio. Other concerns may manifest themselves in the future. One issue that seems certain to impact the fund is that of passporting and the cost of accessing investment opportunities.
- 3.16 AON Hewitt, the Fund's investment advisor, have drafted a Manager Monitoring Report, a Market Review for the 3 months to 30 September 2017 and a Quarterly Investment Outlook which provides context for this risk analysis. These reports are included in the closed part of this Committee agenda.

#### **Section 4: Investment Manager Visit**

3.17

#### **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. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 6.1 The solicitor to the Council comments.

#### **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:**

Quarterly reports from each fund manager (circulated under separate cover)

**Appendices**

---

Appendix A: Fund Returns

The following appendices are considered commercially sensitive:

Appendix B: AON Hewitt Manager Monitoring Report

Appendix C: AON Hewitt Market Review: 3 months to 30 September 2017

Appendix D: AON Hewitt Quarterly Investment Outlook



Appendix A

London Borough of Croydon fund returns for the period ending 30 September 2017

EQUITIES					
L&G FTSE 4GOOD	Quarter	1 year	3 year	5 year	inception
Fund	1.8%	16.4%			10.3%
Benchmark	1.8%	16.5%			10.4%
FIXED INTEREST					
Standard Life	Quarter	1 year	3 year	5 year	inception
Fund	-0.1%	-0.2%	3.3%	3.8%	4.7%
Benchmark	0.0%	2.7%	4.3%	4.5%	5.0%
Wellington	Quarter	1 year	3 year	5 year	inception
Fund	-0.3%	-3.3%	5.5%	4.1%	6.5%
Benchmark	-0.2%	-2.7%	5.8%	4.5%	6.3%
INFRASTRUCTURE					
Equitix	Quarter	1 year	3 year	5 year	inception
Fund	1.9%	9.6%	12.9%	21.6%	14.9%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.4%
Temporis	Quarter	1 year	3 year	5 year	inception
Fund	0.0%	-0.40%			-0.6%
Benchmark	1.4%	7.97%			7.4%
GIB	Quarter	1 year	3 year	5 year	inception
Fund	-0.5%				5.9%
Benchmark	1.4%				6.9%
PRIVATE EQUITY					
Knightsbridge	Quarter	1 year	3 year	5 year	inception
Fund	-2.1%	4.1%	14.9%	16.9%	13.3%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.1%
Pantheon	Quarter	1 year	3 year	5 year	inception
Fund	2.2%	16.6%	18.5%	16.1%	13.1%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.2%
Access	Quarter	1 year	3 year	5 year	inception
Fund	3.3%	1.6%			9.3%
Benchmark	1.4%	8.0%			7.4%
Markham Rae	Quarter	1 year	3 year	5 year	inception
Fund	0.0%				
Benchmark	1.4%				
North Sea Capital	Quarter	1 year	3 year	5 year	inception
Fund	0.0%				
Benchmark	1.4%				
PROPERTY					
Schroders	Quarter	1 year	3 year	5 year	inception
Fund	2.4%	8.8%	8.2%		10.1%
Benchmark	2.4%	9.3%	8.9%		9.4%
PROPERTY PRS					
M&G	Quarter	1 year	3 year	5 year	inception
Fund	0.43%				-3.09%
Benchmark	2.25%				5.94%
Total Fund					
	Quarter	1 year	3 year	5yr	inception
Fund	1.27%	10.95%	11.50%	10.82%	8.18%
CPI + 4%	1.18%	6.97%	5.25%	5.53%	6.43%

Returns are net of fees and annualised apart from for the last quarter

Returns for Equity, Fixed Interest and Property Funds are calculated on a time weighted basis.

Returns for Infrastructure, Private Equity, Property PRS funds and the Total return are calculated on an Internal rate of return basis.

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank