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Pension Board Agenda

To: Michael Ellsmore (Chair)

Councillor Maggie Mansell, Keith Oxspring, Richard Elliott, Theresa Fritz, Ava Watt and David Wickman

A meeting of the **Pension Board** which you are hereby summoned to attend, will be held on **Thursday, 5 July 2018** at **2.00 pm** in **F10 - Town Hall**

JACQUELINE HARRIS-BAKER
Director of Law and Monitoring Officer
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www.croydon.gov.uk/meetings
Wednesday, 27 June 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

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 - 8)

   To approve the minutes of the meeting held on 29 March 2018 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. **Scheme Advisory Board Annual Report** (Pages 9 - 14)

   To receive the summarised findings of the 2017 Annual Report of the Local Government Pension Scheme Scheme Advisory Board.

6. **Pensions Regulator Survey** (Pages 15 - 28)

   To receive the regulators commentary on the results of the Public Service Pension Providers survey.

7. **The Pensions Regulator's 21st Century Trusteeship Campaign** (Pages 29 - 52)

To consider the key themes of the Pension Regulator’s discussion paper on 21st Century Trusteeship and governance.

8. **Risk Register Review** (Pages 53 - 62)

To consider the Pension Fund current risk register.

9. **Governance Review** (Pages 63 - 66)

To consider the the work commissioned to update the review of the governance arrangements in place for the Croydon Pension Scheme.

10. **Options for Property Transfer Proposal** (Pages 67 - 68)

11. **Review of Pension Committee Agenda** (Pages 69 - 86)

12. **LGPS Funding reporting in a 'Pooled World'.** (Pages 87 - 90)

To receive an overview of the proposal for LGPS funding reporting within the context of pooling investments.

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 Previous Meeting** (Pages 91 - 92)

To agree the minutes of 29 March 2018 as an accurate record

15. **Review of Pension Committee Agenda** (Pages 93 - 126)

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Pension Board

Meeting of held on Thursday, 29 March 2018 at 2.00 pm in F10 - Town Hall

MINUTES

Present: Ava Payne; David Whickman, Councillor Maggie Mansell, Richard Elliot, Teresa Fritz, Mike Ellsmore (Chair)

Also Present:

Apologies: Keith Oxspring

PART A

15/18 **Minutes of the Previous Meeting**

At minute number 8/17 there was a typo identified on the second paragraph in that “respected” should be changed to “expected”.

With the amendment stated above, the Board RESOLVED to approve the minutes as an accurate record of the meeting.

16/18 **Disclosure of Interests**

There were none.

17/18 **Urgent Business (if any)**

There were no items of urgent business.

18/18 **Code of Transparency**

The Head of Pensions and Treasury introduced the report, explaining the purpose of the Code of Transparency and its origin from the Scheme Advisory Board. It was also explained to the Board how the Code related to the different funds within the Croydon scheme.

The Chair noted that some asset classes were not required on the Code’s list; officers responded that there was a time scale for the remaining asset classes to be included within the scope of the Code.

The Board discussed the role of the Code in holding managers to account on fees and issues around implementation. It was noted that CIPFA were providing guidance for managers on how to provide the data however at the moment there was slow progress from some parts of the sector.

The Board noted that it had undertaken a special focus on the transparency of costs and welcomed the Code as step in the right direction. It was stated that Pension Committee Members should be provided training on costs transparency to ensure the issue was tackled at Committee level as well, to ensure the Fund was getting value for money.

The Board NOTED the contents of the report.

19/18 **London CIV progress report**

The Head of Pensions and Treasury updated the Board on the latest developments within the London CIV. There had been a governance review, which had generated a consultation, the response to which had been included in the appendix. There were three key issues raised from the consultation:
a. The unique governance challenge of the CIV, balancing the interests and needs of 32 London boroughs.
b. The high turnover of key leadership staff – with the CEO and chief investment officer and other senior officers leaving in recent months.
c. The reasons for the creation of the CIV in the first place.

In response to a question from the Board, officers responded that almost half of the Croydon Fund was invested in a Legal and General scheme that was recognised as equivalent to pooling. The risks associated with investing in CIV funds were considered and analysed both by officers and by the Pension Committee as well. Due diligence is undertaken before any investment decision is made, and this included receiving an opinion from Aon Hewitt. The strategy set by the Committee is a risk adverse approach.

The Chair of the Board reported on a recent Scheme Advisory Board meeting in which representatives of the eight regional pools in the country provided presentations. There was a key issue identified relating to ensuring that sovereignty over funds remained with the individual local authorities and this fed into holding pools accountable for investment decisions made.

The Board resolved that the Chair of the Board write to the s151 officer expressing the concerns raised over sovereignty of local authorities within the London CIV.

20/18 **Review of Training and Compliance**

The Board discussed the training requirements for Board Members and noted that they were more onerous than for Committee Members.

The Head of Pensions and Treasury led Board Members through the report which detailed the sections of competency required for Members.

After further discussion on the training needs of Members the Chair proposed that a needs assessment be created for the summer 2018 meeting of the Board, which would coincide with the three year anniversary of the inception of the Pension Board.

The Board NOTED the contents of the report and RESOLVED to commission a training needs analysis of Board Members.

21/18 **Key Performance Indicators**

The Pensions Admin Manager tabled a report and gave the Board a very detailed update of what steps had been taken within the team to tackle the long-standing issue of the data backlog. Progress was being made regularly but at a steady pace. There had been challenging staff turnover issues in the team however the rollout of new software would help in efficiently dealing with the backlog and ensure clean data in the future. Overall there was a feeling of optimism at re-assessing how the team operated and constructing new processes. Additionally, a significant amount of money had been saved by undertaking the GMP reconciliation in-house.

Board Members considered whether more resources were required to help support the team, given the significant challenges faced. It was noted that this was an issue for a number of local authorities and radical action was needed to tackle the issue in the long term.
Discussion was also held over the risks that scheme members faced with the accuracy of the GMP reconciliation.

Board Members acknowledged the huge pressures facing the pension admin team and noted their support to officers involved in surmounting the challenges.

The Board NOTED the contents of the report.

22/18 **Agenda Papers of the Previous Pension Committee**

The Head of Pensions and Treasury reported that the Fund continued to deliver strong growth and whilst it was still overweight in equities, a significant portion of investment was being moved to the emerging markets sector. In addition officers were looking at private debt managers as another area to help balance the Fund’s portfolio.

The Board NOTED the contents of the report.

23/18 **Exclusion of the Press and Public**

“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.”

The motion was put and it was agreed by the Board to exclude the press and public for the remainder of the meeting.

The meeting ended at 3.44 pm

Signed:

Date:

Croydon Council

REPORT TO:	**Local Pension Board** **5 July 2018**
SUBJECT:	**Scheme Advisory Board: Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: the Local Government Pension Scheme Advisory Board supports the delivery and administration of the Scheme. By comparing local performance with the national picture a direction of travel can be ascertained.	
FINANCIAL SUMMARY: there are no direct financial considerations relating to this report.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 To note this report.

2. EXECUTIVE SUMMARY

2.1 This report summarises the findings of the 2017 Annual Report of the Local Government Pension Scheme Scheme Advisory Board. The report covers governance, funding, membership, investment, benefits and the financial, auditor and advisor statements.

3 DETAIL

3.1 The Chair’s Foreword to the 2017 Annual Report of the Scheme Advisory Board (the fifth it has published) describes the Local Government Pension Scheme (LGPS). The LGPS is one of the largest defined benefit (DB) schemes in the world and is the largest DB scheme in England and Wales, with over 14,000 employers, 5.6m members and assets of £263bn. Key highlights for 2017 include:

- The total membership of the LGPS grew by 394,000 (6.9%) to 5.6m members in 2017 from 5.2m in 2016.
- The total assets of the LGPS increased to £263bn (a change of 21.2%). These assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), as well as other asset classes (6%).
- The Local Authority return on investment over 2016/2017 was 19.5%. This was reflective of the better market conditions during the year.
- The scheme maintained a positive cash-flow position overall.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.6m pensioners were paid over the year. Fewer than 39 formal complaints about scheme benefit administration were determined and less than 13% were upheld by the Pensions Ombudsman.

3.2 As at the 31st March 2016, the LGPS liabilities were estimated at £254bn indicating an overall funding level of 85%.

3.3 The report covers governance, funding, membership, investment, benefits and the financial, auditor and advisor statements.

3.4 The body of the report begins, appropriately enough with a treatment of Scheme governance, management, administration, transparency, and accountability. At the national level the LGPS is governed by the Department of Communities and Local Government (DCLG) and the LGPS Advisory Board. The LGPS has to take account of guidance issued by the Pensions Regulator and Pensions Ombudsman determinations. The investment and management of LGPS assets, the collection of employer and employee contributions, and payment of pension benefits is the responsibility of LGPS administering authorities. The DCLG issues statutory guidance and each administering authority is required to publish a governance compliance statement and explain any non-compliance. Each administering authority is subject to an annual external audit and has to publish an audited financial statements and annual report. The role of the Scheme Advisory Board is to help and support DCLG and administering authorities fulfil their statutory duties and obligations. Training has been delivered to the Board on an ongoing basis at its meetings and through its professional advisers and attendance at LGPS conferences and other events.

3.5 At the local level, each LGPS fund is administered by its administering authority. From 1st April 2015, under the provisions of section 5 of the Public Service Pensions Act 2013 and regulation 106 of the LGPS Regulations 2013 (as amended) each administering authority must establish a Local Pension Board. To assist in the establishment of these Boards, the Shadow Scheme Advisory

Board (SSAB) has developed guidance on the creation and operation of Local Pension Boards for Administering Authorities.

3.6 In line with the LGPS regulations, the funds' actuarial positions are reviewed every three years. The triennial valuation results shown in the 2017 Annual Report and Accounts were based on membership data and asset values as at 31st March 2016. These valuations set the employer contribution rates from 1st April 2017 to 31st March 2020, and were payable during the accounting period ended 31st March 2017. The 2013 valuations, using fund data at 31st March 2013 have set the contribution rates from 1st April 2014 to 31st April 2017, and have took into consideration funding under the new benefit structure.

3.7 As at 31st March 2016, the total asset value of the Scheme was £216 billion, compared with £181 billion as at 31st March 2013. The liabilities totalled £254 billion in aggregate. The overall funding level was around 85%. By way of comparison as at 31st March 2016, the funding level of the 5,945 direct benefit occupational pension schemes within the Pension Protection Fund index was 81.0% (on an insurance buyout basis, which is different from the LGPS actuarial valuation methodology). As at 31st March 2016 the University Superannuation Scheme funding level was 83%.

3.8 As at 31 March 2017, the total membership of the Scheme was 5.6million, compared with 5.3million as at 31 March 2016. The greatest increase in absolute and relative terms was to deferred membership, which increased by 10.5% over the year, however, this was due in part to the reporting of undecided leavers previously not included in deferred totals. The total number of employers listed in the Fund annual report and accounts 2016 was 14,019, compared with 12,915 for 2016. These totals includes active and ceased employers as well as scheduled and admitted bodies, including outsourcing companies, academies etc.

3.9 An important component of the investment piece relates to stewardship and responsible investment. Collectively the £263bn LGPS funds are one of the largest 10 global sources of capital and can influence behavioural changes that lead to better stewardship by the global asset management community and the entities and places they invest in. All LGPS funds have published their Investment Strategy Statement (replacing Statement of Investment Principles) and comply with the Myners Principles as these are LGPS statutory requirements. The UK Stewardship Code (second edition 2012) and global United Nations Principles of Responsible Investment (UNPRI) set out key principles of effective stewardship for asset owners to help them better to exercise their stewardship responsibilities. Compliance with these UK and global sets of principles is not mandatory for LGPS funds but they have the support of the UK Government and Local Authority Pension Fund Forum (LAPFF). As at 31st March 2017 some 28 (31%) were signatories to the Code and 8 funds (8%) (plus one pool company becoming a signatory in March 2018) are signatories to the UNPRI.

3.10 Over the last twelve months the average Local Authority pension fund has returned 21.4%. This return is well ahead of the 30 year average of 8.7% p.a. and well ahead of actuarial assumptions which are currently estimating around 5% p.a. Funds also had an unusually strong year compared to their own benchmarks – with more than three quarters outperforming. This is in contrast to the ten year results where the majority of funds underperformed their benchmarks after fees.

3.11 If the transport funds are excluded, which have very different liability profiles, the range of results in the latest year ranged from a high of 26.8% to a low of 13.9%. Generally funds with a higher equity component were towards the top of the range with those that had a higher commitment to absolute return strategies towards the bottom. Many active equity managers struggled to add value in the peculiar market conditions with the majority of global equity managers employed across the LGPS underperforming, and some quite significantly. Managers who had a value type approach to investing - where there is a greater focus on dividends, tended to perform better.

3.12 Local authority funds still retain a high commitment to active management with the average fund having just under a quarter of its assets managed passively. Whilst the weighting in passive has been increasing it has been doing so very slowly – ten years ago the average fund's passive exposure was already 20%. The increased focus on cost reduction may promote a further move towards index-tracking, however this may be balanced by the asset allocation decisions being made, with funds continuing to increase exposure to assets for which there is no passive alternative.

3.13 The median (middle) performing fund returned 20.6%, 0.8% below the average. This reflects the relatively strong performance of the larger funds in the Universe this year. These funds have benefited from a relatively high exposure to equities and better returns within this area. In terms of asset allocation, there was no significant change at the macro level over the year. The relatively small changes observed resulted from differential market movements rather than cash flow, with equities increasing in proportion as a result of the strong results achieved over the year and property reducing because of the relatively poor results. At 62% of the average fund, equities represent the largest component by a significant amount.

3.14 The 5.6 million members of the LGPS receive a life time membership service and regular information about LGPS benefits from their host LGPS pension fund upon joining the scheme, via annual benefits statements, upon leaving the scheme, or becoming a pensioner. It is pleasing the vast majority of LGPS members appear to welcome and are content with the information and benefits they receive and the LGPS complies with Pensions Regulator guidance and codes in respect of member communications. Based on reports from the Pensions Ombudsman (PO) a small minority are recorded as making formal complaints about their pension benefits initially to the Pensions Advisory Service (TPAS) and if they are still not satisfied to the PO. The vast majority of cases concern employer decisions about ill-health retirement and or calculation of ill health retirement benefits. This is in line with most other occupational pension schemes.

3.15 This report summarises at a high level the contents of the annual report. The Scheme Advisory Board's website provides more detail and can be accessed at this address:

http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report

4 FINANCIAL CONSIDERATIONS

4.1 There are no direct financial considerations relating to 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

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

BACKGROUND DOCUMENTS: None

APPENDICES: None

Croydon Council

REPORT TO:	**Local Pension Board** **5 July 2018**
SUBJECT:	**Public service governance and administration survey**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: The Board assists the Local Government Pension Scheme administrator in ensuring good governance. Comparison against best practice can be valuable in achieving this target.	
FINANCIAL SUMMARY: There are no explicit financial implications for this report.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 To note this report.

2. EXECUTIVE SUMMARY

2.1 The Pensions Regulator has undertaken a survey of public service pension providers. This looked at governance and administration. This report summarises the Regulator's commentary on the results of the survey.

3 DETAIL

3.1 The Pension Regulator regulates the governance and administration of public service pension schemes, which provide pensions for over 16.7 million civil servants, members of the judiciary, local government, teachers, health service workers, members of fire and rescue services, members of police forces and members of the armed forces.

3.2 The Regulator's Code of Practice no. 14 sets out the standards of conduct and practice expected from public service pension schemes. To help focus their efforts, they surveyed public service pension schemes in autumn 2017 to assess how they were being run. This built on previous surveys in autumn 2016 and summer 2015. In this latest survey they have further examined certain risks and areas of underperformance that schemes identified in previous years. As in previous years, the survey was an online self-completion questionnaire which was sent for the attention of each scheme contact. Responses were received from 191 of the 207 public service pension schemes, covering 98% of memberships. This allowed robust conclusions from the results. This policy summary also draws from the engagement undertaken with schemes over the past year through casework, board meetings, training sessions, conferences and speaking events.

3.3 Their report sets out how they have interpreted the findings, their expectations of those involved in running the schemes and what will happen over the next year to address these issues. The summary of results and the Regulator's commentary is brief and attached as an appendix to this report. Readers are directed to the Pensions Regulator's website for the fully detailed document: http://www.thepensionsregulator.gov.uk/docs/public-service-research-2018.pdf.

3.4 The survey suggests that the top risks are around scheme governance, record-keeping and internal controls. The Regulator however does note that there has been an improvement in the number of annual benefit statements sent out on time and an increased engagement from scheme managers and pension boards, both being considered positives worth highlighting.

3.5 There is a concern though that with local authorities the improvement process has stalled and the Regulator states that activity will focus on this during the coming year.

Scheme governance

3.6 The Regulator reports encouraging improvements and focusses this section on the six key processes that have been monitored:

- policy to manage conflicts of interest;
- procedures to assess and manage risks;
- procedures to identify, assess and report breaches of the law;
- processes to monitor member records for accuracy and completeness;
- access to knowledge, understanding & skills needed to run scheme; and
- process for resolving payment issues & report failures to TPR.

Croydon has all of these in place.

3.7 There have been marked improvements in having documented policies to manage conflicts of interest and assessing and managing risks but statistically significant weakness in processes to monitor member records for accuracy and completeness. The survey highlighted that scheme managers are not always working well with Pension Boards. One measure of the commitment to scheme governance is the frequency of board meetings, which may indicate a superficial assessment of the challenges facing the scheme.

Record Keeping

3.8 All schemes should undertake an annual data review. It is not considered feasible to address all errors and omissions immediately and the approach this authority has adopted, in common with many others, is to prioritise rectification in a structured, sequential fashion. Key to the success of this approach is the existence of a robust improvement plan. The performance of the scheme administrators should be considered at every Board meeting.

Internal Controls

3.9 Scheme managers, pension board members and other parties have a duty to report breaches of the law. Nine out of ten schemes now have procedures in place to identify and report (91%) breaches of law. This has been identified as a significant improvement from previous years. Fewer schemes had identified or reported any breaches of law this year, and this has been attributed to the improvement in producing annual benefit statements. However, the Regulator is concerned that schemes may be choosing not to report material breaches in certain circumstances as they are concerned about the potential consequences.

3.10 Finally, the Regulator highlights the fact that public service schemes must provide annual benefit statements to active members by a 31 August. This year, respondents reported that 92% of members received their annual benefit statement on time, a significant improvement on the 75% seen in 2016. However, only 60% of respondents reported that all their members received their statements on time. The Regulator stated that they expect schemes to have made significant progress by now and will have much less tolerance for shortcomings this year. In summary, the Pensions Regulator is sending out a clear message that action, in the form of using enforcement powers, is more likely where there are short-comings in following procedures to assess and manage risk and also reporting breaches of law.

4 FINANCIAL CONSIDERATIONS

4.1 There are no direct financial considerations arising 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

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

BACKGROUND DOCUMENTS: None

APPENDICES: Appendix A: Public service governance and administration survey. Summary of results and commentary. The Pensions Regulator, May 2018.

Public service governance and administration survey

Summary of results and commentary

May 2018

The Pensions Regulator

Background

We regulate the governance and administration of public service pension schemes, which provide pensions for over 16.7 million civil servants, members of the judiciary, local government, teachers, health service workers, members of fire and rescue services, members of police forces and members of the armed forces.

Our Code of Practice no. 14, available at **www.tpr.gov.uk/code14**, sets out the standards of conduct and practice we expect from public service pension schemes.

We open cases based on the risks we see in schemes and in response to breach of law and whistleblowing reports. Where standards are not being met and issues are not being resolved we consider enforcement action, including the use of improvement notices and civil penalties.

To help us focus our efforts, we surveyed public service pension schemes in autumn 2017 to assess how they were being run. This built on previous surveys in autumn 2016 and summer 2015. In this latest survey we have further examined certain risks and areas of underperformance that schemes identified in previous years.

As in previous years, the survey was an online self-completion questionnaire which was sent for the attention of each scheme contact. We received responses from 191 of the 207 public service pension schemes, covering 98% of memberships. This allows us to draw robust conclusions from the results. This policy summary also draws from the engagement we have undertaken with schemes over the past year through casework, board meetings, training sessions, conferences and speaking events.

This report sets out how we have interpreted the findings, our expectations of those involved in running the schemes and what we will be doing over the next year to address these issues. It accompanies the full research report which shows the responses to all survey questions.

Summary

The survey supports our existing assessment that the top risks in this landscape are around scheme governance, record-keeping and internal controls, but identifies significant improvements in these areas. Many more schemes are now meeting the basic governance standards, allowing us to focus on building further improvements.

Overall, we were pleased by the significant improvements in performance across most of the areas addressed in the survey, in particular the much improved governance reported by the Police and Fire schemes. While they continue to lag behind their peers, we anticipate that these schemes will continue to show improvements across all governance areas in 2018.

In the third year of having a statutory deadline, 60% of schemes reported that all members had received their annual benefit statement on time. This is a commendable improvement on the previous year when less than half (43%) of schemes met the deadline.

We are pleased to see increased engagement from scheme managers and pension boards in running the schemes. However, the survey shows that over two-fifths (43%) of schemes hold fewer than four meetings a year. In our view, this provides inadequate opportunity for pension boards to effectively carry out their role and raises concerns about the quality of governance.

We also see signs that process improvements have stalled in some Local Government schemes. This group was also the one that was least likely to respond to the survey and we are concerned about the risks of disengagement. Because of the specific challenges faced by Local Government schemes, we expect to focus casework activities on this group in the coming year.

Scheme governance

The results of this year's survey have shown encouraging improvements in scheme governance. The Police and Fire schemes deserve a particular mention for the improvements they have made over the last year, from a low base. It is also noticeable that the group of centrally administered schemes has also shown improvements in governance, which is pleasing given that they are generally large and complex arrangements.

All six of the key processes monitored by us have improved since 2015, and three have shown improvements since 2016. Of these six processes, the most notable increase has been in schemes that have a documented policy to manage board members' conflicts of interest. This was in place in 92% of schemes, an increase of 11 percentage points since 2016.

A similar improvement was seen in schemes with documented procedures for assessing and managing risks. These are now present in 83% of schemes, an increase of 11 percentage points since 2016.

These items are basic features of scheme governance and we expect this year's improvements to continue. By the end of the year, all schemes should have a conflicts of interest policy and procedures for assessing and managing risks in place.

One of our main messages to public service schemes over the past year has been about the importance of good quality scheme data. It is therefore disappointing to see an apparent fall in the number of schemes with processes to monitor records for accuracy and completeness. This year, 15% of schemes stated that they did not have these in place, a decline of four percentage points since 2016. This suggests that schemes may have reviewed the processes they believed they had in place and have found them either absent or inadequate.

Only 58% of schemes have all six key processes in place. This leaves over 4.8 million members (29%) in a scheme that does not have a complete set of basic governance features in place.

Good governance is essential to pension schemes delivering good member outcomes. This is a key focus for us, through our ongoing programme on 21st century trusteeship and governance, which can be found at **www.thepensionsregulator.gov.uk/21st-century-trusteeship**.

We are pleased that there appears to be a greater awareness of their governance duties among scheme managers and pension boards[1]. However, we remain concerned that scheme managers are not always working well with pension boards. While 85% of surveys were completed

1 Further information regarding the roles and responsibilities of those involved in governing public service pensions schemes can be found at **www.thepensionsregulator.gov.uk/public-service-schemes/roles-and-responsibilities.aspx**

with the involvement of the scheme manager, the pension board chair was only involved in 45% of responses, and pension board members in just 16%. This may lead to a biased or unbalanced view of the performance and risks facing the scheme.

We also have doubts about the commitment shown towards scheme governance. Encouragingly, while 88% of scheme managers or their representatives now attend every pension board meeting, these meetings occur less than quarterly in 43% of schemes. This appears to only be an issue in locally administered schemes, and is independent of the size or structure of a scheme. We do not believe that schemes can be governed effectively through occasional meetings, particularly given the time dependent nature of many of the issues to be addressed.

The infrequent nature of meetings in many schemes may result in a superficial assessment of the challenges they face. Despite four-fifths (80%) of schemes saying they had the resources and knowledge needed to run the scheme effectively, a third (31%) do not actually regularly evaluate the performance or effectiveness of the board.

Over the coming year we will continue to focus on improving governance in public service pension schemes. In addition to our 21st century governance work, we will continue to educate scheme managers and pension boards through face-to-face meetings, and we will work with scheme advisory boards and other stakeholders to reach disengaged scheme managers. The vast majority of respondents have used the resources on the public service section of our website and have found them useful. We would encourage schemes to make further use of them. Materials online include practical guidance on how to comply with legal requirements such as an example risk register, an internal controls checklist and a self assessment tool enabling schemes to identify issues and ways to address them.

Engagement by TPR was identified by 43% of schemes as a driver of improved governance and administration in the last year. We believe by clearly communicating about the standards we expect from all parties, and by providing tools to help schemes meet these standards, we can continue to support improvements in governance and administration. Schemes and other interested parties may request a speaker from TPR at their events by using our speaker request form at **https://secure.thepensionsregulator.gov.uk/speaker-request.aspx**.

Record-keeping

Failure to maintain complete and accurate member records will affect a scheme's ability to carry out its most basic function; paying the right members the right benefits at the right time. Record-keeping issues in public service schemes are well known and 39% of respondents identified this as a top risk to their scheme. Schemes reported that almost a fifth (18%) of breaches of law were caused by a failure to maintain records or rectify errors.

Data

We have made our expectation clear that all schemes should do an annual data review. However, 17% of schemes had not carried out a data review in the last twelve months, and a further 8% were not sure. The value of regular data reviews is clear; 69% of schemes carrying them out identified issues, an increase of 9% from last year. However, the survey still raises concerns about how effective some of the data reviews have been. It is questionable that just over a quarter (28%) that had carried out a review did not identify any issues.

We are aware that some schemes have embarked on a multi-year process intended to review and reconcile their data and we welcome this activity. While the scope of these plans is not clear, we are not surprised that few schemes have completed the rectification of their data (7%), given the scale of the projects to be undertaken. It may be difficult and uneconomic to rectify all data issues at one time, and we support schemes that prioritise the work in a structured, sequential way.

In the past year, we have set out our expectations around data security and provided additional guidance on developing a good data improvement plan. We will consider enforcement action where scheme managers fail to demonstrate that they are taking appropriate steps to improve their records, including having a robust improvement plan in place.

For the first time, the 2018 scheme return will ask schemes to report on their common and scheme specific data scores. While our research indicates that a good proportion of schemes are familiar with these terms, we will be producing further material for scheme managers on this subject. We also intend to work with scheme advisory boards this year to encourage the creation of common data standards that can be adopted by employers to ease the problems faced by schemes and their employers.

Employer compliance with data standards continues to be an issue for schemes and was recognised as a barrier to improving governance and administration by 28% of schemes. Timely data was provided to all employers in just 37% of schemes, and accurate data was received from all employers by less than a third (30%) of schemes. Scheme managers should work with employers to ensure processes are effective and fit for purpose, and take action to rectify issues in the first instance. The use of penalties by schemes remains low, and we would encourage schemes to take all reasonable measures available to them before asking us to intervene with our own powers.

Administration

Pension boards should pay close attention to the performance of their scheme administrators, since they are critical to the good running of the scheme. It is notable that two of the top three causes of complaints received by schemes[2] have a basis in poor administration and poor record-keeping.

We have made it clear that schemes and pension boards should focus on administration as a key influence on data quality and member outcomes. It is therefore disappointing that administrators operate without service level agreements in place in over a quarter (26%) of schemes and that only a fifth (20%) of schemes use penalties where service or contractual standards are not met. This lack of accountability by administrators is most noticeable in the 46% of schemes that are managed in-house, or where administration is outsourced to another public body (24%).

Schemes should ensure that administration is a feature of every pension board meeting (24% currently do not), so they have sight of emerging issues and trends. Administrators can also provide regular reports to the scheme manager (17% of schemes do not do this). Schemes may wish to consider whether to obtain assurance reports on the performance of their administrators, or to commission assurance reports themselves.

2
Inaccuracies or disputes around pension value or definition (31%) and slow or ineffective communication (30%)

Internal controls

Scheme managers, pension board members and other parties have a duty to report breaches of the law to us in certain circumstances. Nine out of ten schemes (90%) now have procedures in place to identify (92%) and report (91%) breaches of law. This is a significant improvement from previous years. Fewer schemes had identified or reported any breaches of law this year, and we attribute this to the improvement in producing annual benefit statements. However, we remain concerned that schemes may be choosing not to report material breaches in certain circumstances as they are concerned about the potential consequences.

Member communications

Public service schemes must provide annual benefit statements to active members by a specific deadline, generally 31 August. This year, respondents reported that 92% of members received their annual benefit statement on time, a significant improvement on the 75% seen in 2016. However, only 60% of respondents reported that all their members received their statements on time. We recognise that public service pension schemes initially faced challenges meeting their new duties. However, we expect schemes to have made significant progress by now and will have much less tolerance for shortcomings this year.

Taking action

Scheme managers should be aware that we are more likely to use our enforcement powers this year. Where we open cases, we will work with the schemes involved to resolve gaps in their risk and breach of law processes. When considering action or setting fines, we will take into account a party's co-operation with us, and their efforts to put things right. For example, those who fail to report breaches to us quickly could receive a higher penalty for a breach, and an additional penalty for a failure to report. You can find further information in our monetary penalty policy at **www.tpr.gov.uk/ps-monetary**.

We have taken, and will take, enforcement action where scheme managers have not taken sufficient action to address issues or meet their duties. In line with our compliance and enforcement policy (found at **www.tpr.gov.uk/strategy**), we will continue to publish reports of our regulatory activities - including enforcement activity - to encourage higher standards.

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www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

www.pensionseducationportal.com
Free online learning for those running public service schemes

Public service governance and administration survey
Summary of results and commentary

The Pensions Regulator

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Croydon Council

REPORT TO:	**Local Pension Board** **5 July 2018**
SUBJECT:	**The Pensions Regulator's 21st Century Trusteeship Campaign.**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: robust arrangements for the governance of the Pension Fund are fundamental to the successful administration of the Local Government Pension Scheme.	
FINANCIAL SUMMARY: There are no direct financial consequences associated with this report.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 Members of the Board are asked to note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This report considers the key themes of the Pension Regulator's discussion paper on 21st Century Trusteeship and governance. In order to drive up standards of governance and administration the Regulator intends to focus on targeted education and setting out what is expected from adopting higher standards.

3 DETAIL

3.1 During 2016 the Pension Regulator's office published a discussion paper on 21st Century Trusteeship and governance. This looked at standards among trustees could be raised to improve the way that pension schemes are managed. The Regulator also carried out research showing that many pension schemes aren't meeting the governance standards that are expected. This is dealt with by a report elsewhere on this agenda. Consequently the Regulator has decided to launch a programme to raise the standards of governance across all pension schemes.

3.2 The 2016 discussion paper considered a number of key themes, which included:

- **Board effectiveness and the importance of diversity**: To be effective, boards need a diverse mix of trustees who bring a balance of skills and experiences, professional backgrounds and interests.
- **The role of the chair**: Chairs of trustees were said to play a vital role in setting the approach to governance and scheme management. Their role required good leadership, communication, negotiation and people management and mentoring skills in addition to pensions knowledge.
- **Meeting Trustee Knowledge and Understanding (TKU) standards and the role of training and development**: An interest and desire to take on the role of trustee was seen as the most important quality. Basic understanding of how pensions work was considered crucial but detailed knowledge was seen as less important than personal attributes.
- **Managing conflict of interests**: Some professional trustees explained that they can be under pressure to prioritise the employer's interest, although their professional integrity ensured that they acted impartially.
- **Engagement with key governance activities and working with third parties**.
- **Administration and investment governance**: Trustee boards described a wide range of approaches to key governance activities such as administration and investments.
- **Working with advisers**: Nine in ten schemes employed advisers but one in ten schemes reported they could rarely or never afford to appoint advisers – those tended to be small schemes. • Trustees rarely disagreed with advisers although many scrutinised advice in detail. However, not all lay trustees were confident in their ability to challenge professional advisers.

3.3 The Regulator has now published a response to this discussion paper. This response is appended to this report.

3.4 This response sets out the approach that the Regulator intends to drive up standards of governance and administration, and the competence of those managing schemes, including public service schemes, going forwards. Firstly, more targeted education and tools to raise the standards of trustees; then by setting out clearly what is meant in practice by the higher standards already expected of professional trustees and the specific qualities and skills expected from chairs; and finally tougher enforcement against trustees who fail to meet the required standards.

3.5 The following will be of particular relevance to this Pension Board: extensive guidance on good investment governance for all pension schemes will be published this year. The Regulator lists a number of other interventions, covering enforcement and reporting on governance, but these areas are of less relevance to this scheme.

4 FINANCIAL CONSIDERATIONS

4.1 There are no direct financial considerations associated with 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

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

BACKGROUND: None

APPENDICES: Appendix A: 21st Century Trusteeship and Governance Discussion paper response, the Pensions Regulator, December 2016.

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21st Century Trusteeship and Governance

Discussion paper response

December 2016

The Pensions Regulator

Introduction

Our discussion paper '21st Century Trusteeship and Governance'[1] was designed to stimulate a dialogue about how government, regulatory bodies and the pensions industry can raise standards of trustee competence and improve the governance and administration of pension schemes. The paper focused on private sector trust-based defined contribution (DC) and defined benefit (DB) schemes, but the insights and feedback received clearly apply to the whole of our regulated landscape, including the pension boards of public service schemes.

Drawing on our trustee landscape research, observations of trustee meetings and discussions with our stakeholders, we presented what we had learned and asked you to respond with your ideas and views on a range of topics.

We wanted to gather views on how we could help trustees manage their schemes efficiently.

We described the importance of the diversity and effectiveness of the board as a whole, along with the crucial and multi-faceted role of the chair. We asked for views and ideas on a number of areas relating to the competence of trustees. This included how to ensure trustees – particularly new ones – can acquire and maintain sufficient knowledge and understanding (TKU), and demonstrate they have the competence required to fulfil their role (eg through qualifications). We also asked whether minimum standards or barriers to entry should apply to chairs of trustee boards and professional trustees, given the evidence of the added value a good chair and professional trustee can bring to pension boards.

We also outlined the difficulties some trustees appear to have with:

- engaging with their advisers and service providers
- key investment and administration activities
- managing conflicts of interests.

We asked how you thought these challenges should be overcome.

We wanted to gather views on the additional support we could provide to trustees, for instance by way of guidance and tools, to help them manage their schemes efficiently.

And finally, we asked what steps could be taken in cases where trustees are unwilling or unable to meet the required standards, and if those schemes affected by poor trusteeship should be encouraged or required to exit the market or consolidate into better governed schemes, such as authorised master trusts.

1 www.tpr.gov.uk/21c-trustee

A full list of the discussion questions is included in Appendix 1.

We received 74 responses from lay and professional trustees, chairs of trustee boards, pension managers, public service scheme board members, advisers, consultants, industry stakeholder organisations and trade bodies. A full list of the respondents is included in Appendix 2. We are grateful to everyone who responded to the discussion paper.

In this response we provide a high-level summary of the responses we received and explain what we intend to do next.

What you said

Trusteeship and governance

There was consensus that good governance is essential to pension schemes delivering good member outcomes and strong support among respondents for our drive to improve standards. However, many respondents emphasised that we should not impose unnecessary regulatory burden on well-run schemes. They believed our focus should be on the trustees who need our support, through education, and on increased use of our enforcement powers, targeted at poorly-run schemes.

Many also stressed the importance of diversity on trustee boards – a key benefit of the trustee model – and that any solutions to governance challenges should not create barriers or discourage, exclude or deter good trustees.

A number of respondents thought that employers needed to do more to help trustees govern their schemes effectively, such as providing time off for trustee duties and training and sufficient resources to secure the necessary advice and help.

A number or respondents thought employers needed to do more to help trustees.

Trustee competence and board effectiveness

Minimum qualifications for chairs and lay trustees

While many respondents supported some form of barriers to entry for professional trustees, few thought that mandatory qualifications would be appropriate for lay trustees or chairs.

Respondents thought minimum qualifications could not adequately test and measure the broad range of experience, skills, knowledge and attitude required of trustees on an ongoing basis. In particular, the qualities of a good chair were seen as more behavioural in nature and qualifications or registration with a professional body would not necessarily demonstrate competence for the role.

There were also concerns that requiring qualifications would discourage people from becoming or remaining as trustees or chairs, and therefore hinder diversity on boards. Some respondents also stressed the importance of focusing on the competence of the board as a whole. Qualifications were thought to be too standard and not sufficiently flexible to meet the needs of trustee boards.

Continuous professional development (CPD)

Respondents thought it was more important to ensure ongoing trustee training and development, although most opposed the introduction of a formal continuous professional development (CPD) framework, particularly for lay trustees. Many respondents pointed out that mandatory CPD would create a disproportionate burden on trustees and employers. Others highlighted the challenges of setting up and maintaining such a framework, particularly the effort required to identify and certify suitable training provision. There were also concerns that such a formalised framework would not be sufficiently flexible to reflect the complexity of scheme specific requirements and would lead to a tick-box approach to training and development.

Many respondents thought it would be more appropriate to promote voluntary take-up of existing CPD frameworks or encourage trustees to focus on having the appropriate framework to facilitate regular training (see below).

Mandatory completion of the Trustee toolkit or equivalent

While the Trustee toolkit was widely thought to be a high-quality, useful learning tool for trustees, many thought completion of the toolkit or an equivalent should not be mandatory. They argued it would not guarantee competence, would be disproportionate – particularly for those trustees already meeting the standards of the toolkit – and was not sufficiently flexible to reflect scheme-specific circumstances.

Trustee probation

A small number of respondents were in favour of introducing a probationary period for new trustees. However, many respondents were opposed to the idea, on the grounds that it would:

- be burdensome to administer and difficult to monitor and enforce
- be incompatible with the legal requirements for trustees to be competent from day one
- create legal and governance issues in relation to trustee decision-making, for example lack of quorum, delays in decision-making, validity of indemnity provisions, democratic election of member nominated trustees (MNTs)
- deter potential trustees from applying for the role

Professional trustees

Given the increased reliance of pension boards on professional trustees and the unregulated nature of this market, most respondents were in favour of barriers to entry for these trustees and thought they should uphold higher standards and be able to demonstrate their expertise.

However, many respondents who were in favour of greater regulation of professional trustees recognised the challenge of defining an appropriate minimum standard. It was argued that any requirements would have to be sufficiently broad and flexible to take account of the varied experience and skills professional trustees possess, recognising the wide range of roles and specialisations they can have. In particular, many thought formal qualifications were not necessarily appropriate because they were unlikely to measure the experience or skills required to be a competent professional trustee, which were seen as equally or more important than technical knowledge.

Those who favoured registration of professional trustees were divided as to who should oversee this regime. Some thought existing professional bodies were best placed to set professional, technical and conduct standards and have disciplinary procedures in place. Others thought we should regulate the profession. Many ideas were put forward for other means of setting minimum standards for professional trustees.

Some respondents were opposed to formal barriers to entry of any sort, arguing for instance that competitive market forces would be sufficient to ensure adequate standards.

Professional trustees should uphold higher standards and be able to demonstrate their expertise.

Alternatives to formal barriers to entry were suggested, such as encouraging rigorous trustee appointment processes (including seeking evidence of CPD being undertaken). Other alternatives included regularly assessing the competence of the professional trustees on the board, a voluntary assurance framework and setting clear standards and expectations through guidance.

In particular, respondents called for the definition of 'professional trustee' to be clarified. They argued it was not helpful to define professional trustees solely on the basis of remuneration, given the growing practice of remunerating lay trustees who do not provide commercial trustee services or hold multiple scheme appointments.

Solutions to raising standards of trusteeship

Many suggestions were made as to what more could be done to ensure the competence of trustee boards, instead of mandating minimum qualifications:

a) Robust selection processes

Rigorous selection and appointment processes of the trustees on the board, focused on the competence of the candidates and the current and future needs of the board in terms of knowledge and skills, were seen as crucial.

b) Effective chair

There was broad agreement that chairs play a vital leadership role in helping to ensure the collective competence of the board and that appropriate governance processes are in place. Because of this, nearly all respondents were in favour of all DB schemes having to appoint a chair, similar to the new requirements for DC schemes, although it was noted that most DB schemes already had a chair.

A few respondents argued that, while the chair had an important role to play to ensure board effectiveness, they should not define the board's operations singlehandedly or be expected to make up for board deficiencies. Over-emphasising the role of the chair could also lead to other trustees becoming disengaged or avoiding taking responsibility for their own development.

c) Board evaluations

Respondents stressed the collective nature of the trustee board and the importance of the board as a whole regularly assessing skills and knowledge gaps and its own effectiveness and taking action to address weak areas.

d) Greater transparency and accountability

Many respondents thought that greater transparency and accountability through reporting (eg of how TKU requirements are being met) can lead trustees to be more focused on governance and making improvements.

In that context, many respondents were in favour of aligning the requirement to report on compliance with governance requirements across trustees of DC and DB schemes. However, respondents thought it was important to ensure that such a requirement did not place a disproportionate burden on trustees. It should fit within existing reporting frameworks, be designed so that it adds value, should not end up as a box-ticking exercise, and should be tailored to the specific nature of DB schemes.

Other respondents thought trustees of DB schemes should not be required to report on governance, as it would be a burden on those who are already performing well. They didn't see what additional benefit there would be for member outcomes, and preparing and reviewing statements would often involve engaging advisers and associated costs.

Other respondents advocated alternatives to chair statements, such as greater use of the scheme return for compliance reporting and gathering information on governance activities.

Engaging with third parties and managing conflicts of interests

Respondents set out the many challenges trustees face in engaging effectively with third party providers and advisers, including lack of strategic oversight by trustees, lack of trustee knowledge and time, poor understanding of roles and responsibilities, unclear trustee delegation structures and lack of clarity as to what is expected of third parties. Respondents said these challenges could be amplified in small schemes due to more significant time and resource constraints.

Others suggested that conflicts of interest, opaque fees and charging structures, and a limited market resulting in a lack of competitive tendering (especially for bundled services) made it difficult for trustees to deliver good governance.

Respondents made various suggestions that could help trustees engage with advisers and providers and focus on the key areas of investment and administration more effectively, including:

- regular adviser and administrator attendance at trustee meetings
- using service level agreements and regular monitoring of third-party performance
- managing adviser and provider conflicts of interest
- appointing trustees with a diverse mix of skills, knowledge and experience
- using sub-committees with the specialist knowledge to challenge the governance in these areas
- regular board effectiveness reviews
- agreeing roles, responsibilities and delegated authorities
- appointing an independent or professional trustee
- making use of independent procurement advisers and reviewing advisers

On conflicts of interests, respondents said these were inherent to pension boards and can result from individuals bringing valuable experience and knowledge to the board. Respondents considered that for these reasons, it would be difficult, or even inappropriate, to seek to eliminate potential conflicts entirely and that these could be effectively managed and mitigated through both the composition and processes of the trustee board. Suggestions included:

- open and transparent recruitment and selection of trustees to ensure a diverse mix of knowledge, skills, interests and motivation, including recruitment of independent trustees where appropriate
- chairs taking an active role to ensure views and concerns can be raised at meetings and conflicts of interest dealt with in a prompt and open fashion
- appropriate processes and protocols to identify, monitor and manage conflicts, and regular review of these processes – these should cover all key participants in the scheme, including advisers and providers

Respondents also offered ideas as to what we could do to further promote effective conflicts management. These included further promotion of our existing guidance (which was thought to be useful), providing best practice examples and further guidance on managing conflicts in specific circumstances (eg conflicts relating to master trusts or independent trustees), requiring annual reporting on how conflicts have been managed, and targeted intervention supported by the publication of intervention reports.

Unwilling/unable schemes

We asked what should be done with schemes unwilling or unable to deliver good governance and whether they should be required to exit the market or consolidate into better governed, probably, larger scale provision.

There was broad consensus among respondents that our primary focus should be on providing education and support for trustees, particularly those not meeting the standards we expect, and increased use of our enforcement powers targeted at poorly-run schemes.

The majority of respondents offered qualified support for consolidation. They thought it could help improve member outcomes but some also believed consolidation can be associated with potentially significant risks and practical difficulties. While many considered the consolidation of small, poorly-run DC schemes into quality master trusts to be possible, desirable and already taking place, many were concerned that the costs of consolidation should not fall on members.

Many were concerned that the costs of consolidation should not fall on members.

For DB schemes, differing benefit structures, the importance of continuing sponsor support, and issues around funding levels and s75 debts were seen as key barriers to amalgamation.

There was some support for leaving market forces alone to promote consolidation and for encouraging trustees to consider, through reporting and benchmarking, whether lack of scale was an issue and take steps accordingly. However, most respondents considered that legislative or regulatory intervention would be required to facilitate the consolidation process or guard against detrimental impacts. Suggestions to encourage consolidation of DC schemes included:

- simplify transfers without member consent
- replace actuarial certification with a 'long-term best-interests' test

- a statutory override of a scheme's trust deed and rules to allow trustees to trigger a wind-up of the scheme
- ensure regulation of master trusts is fit for purpose so there are quality schemes for members of small schemes to be transferred to

Other suggestions to improve scheme efficiency and governance included providing benchmarks or rankings to allow comparison of schemes, using more case studies, and facilitating collaboration between boards (for example, sharing services or pooled investments).

Education

Many respondents agreed we have an important role to play in supporting trustees boards to be effective. In addition to encouraging the activities and providing the guidance mentioned in the sections above, it was suggested that we could do the following:

- Encourage trustees to understand the benefits of good governance rather than seeing it as a compliance exercise.
- Provide further guidance and tools on soft skills, trustee appointments and induction, key roles and responsibilities, succession planning, board performance assessments, appointing and monitoring third-party advisers and service providers.
- Improve how we communicate TKU requirements, for instance regular communications emphasising the importance of TKU, including more targeted communications aimed at new trustees.
- Provide best practice examples, scenarios and case studies to bring guidance to life and help trustees understand its application in practical scenarios.
- Use more graphics and short summaries of guidance.
- Update the TKU framework and allow it to be more flexible.
- Provide more training for trustees, through seminars and webinars or encourage trustees to access the training offered by industry providers.
- Facilitate a trustee network to share knowledge and best practice.
- Set out clear expectations of advisers and providers and encourage them to provide clear accessible advice.

While the quality of our material (such as the Trustee toolkit) was praised, many respondents thought existing material was too voluminous or difficult to find and that consolidating, simplifying and reducing existing guidance and making the website easier to navigate would make information more accessible. Our DC code and guidance were cited as a good approach, supported by clear language and practical examples.

Most respondents supported our proposed approach of producing overarching guidance applicable across all schemes, arguing that common guidance on governance and effective boards would bring a welcome consistency across schemes and would be helpful for schemes with multiple benefit-types.

Some remained neutral and a minority did not agree overarching guidance would be useful, as it would not cater for scheme specifics.

All members have the right to expect that their retirement savings are being looked after properly.

What we will do next

Good governance matters – it is the bedrock of a well-run pension scheme. Having the right people, structures and processes in place to manage a scheme leads to effective decision-making and increases the likelihood that it will deliver good outcomes for members. Past research[2] has shown the 'poor-good' governance gap to be worth at least 1-2% of additional return per annum.

It's clear from our research and case experience that the quality of governance and administration is patchy and that not all schemes are meeting the standards we expect. We take the view that it is unacceptable that some members are at greater risk of poor outcomes in later life purely because they happen to have been employed by an employer with a poorly run pension scheme, and we are not prepared to stand by as a compromised, second class membership emerges. All members of occupational pension schemes have the right to expect that their retirement savings are being looked after properly by the trustees. In addition, poor trustee stewardship will impact the funding costs of DB schemes and translate into poor value for sponsoring employers. In short, poor governance and administration is not a victimless phenomenon – it's bad for members and it's bad for employers too.

2
'Pension Fund Governance Today: Strengths, Weaknesses, and Opportunities for Improvement', Financial Analysts Journal 2006.

3
See paragraph 44 at **www.tpr.gov.uk/code13** and **www.tpr.gov.uk/dc-policy**

4
See **www.tpr.gov.uk/trustee-board**

That is why we're determined to drive up standards of governance and administration, and the competence of those managing private sector DC, DB trust-based occupational pension schemes and public service schemes. We will do this in three ways, through:

- more targeted education and tools to raise the standards of poor trustees
- setting out clearly what we mean in practice by the higher standards we already expect of professional trustees[3] and the specific qualities and skills we expect chairs to bring to trustee boards[4]
- tougher enforcement against trustees who fail to meet the required standards

We are encouraged by the high level of engagement and support we've received on the 21st century trusteeship initiative. The responses to the discussion paper showed a wide range of opinions and ideas. These will help us shape our future regulatory approach.

Back to basics

We're not seeking to impose new standards of governance and administration but we expect trustees or managers who are not meeting the standards to start doing so, and after over ten years of our 'educate and enable' strategy, we now expect trustees who have so far failed to meet these standards to do so very quickly. We will focus on the fundamentals of good governance and the building blocks that need to be in place to ensure effective management of the scheme, such as:

- board competence (with greater focus on skills), including recruitment and succession planning, skills and knowledge assessments, performance reviews, action plans and ongoing training and development
- clear roles, responsibilities and accountabilities of key scheme participants (chairs, professional trustees, other trustees, scheme managers, pension board members, scheme secretaries, employers, advisers, service providers etc)
- effective governance structures and decision-making processes
- effective business planning

In particular, we'll set out clearly the standards we expect in practice of chairs and professional trustees, given the crucial role they play on boards. In the first part of next year, we also plan to clarify our definition of professional trustees as part of a consultation on our penalty policy. This does not detract from the vital role lay trustees play – the most effective boards have a diversity of skills, points of view and expertise to draw upon – and we will continue to expect lay trustees to meet standards and will support them to do so.

In addition, we'll focus on the key areas we think are vital for good member outcomes and which our research indicates trustees are finding challenging or are not sufficiently engaging with. This includes investment governance, conflicts of interest, administration and record-keeping. We're publishing extensive guidance on good investment governance for all pension schemes (building on the current DC guide) in the first part of next year.

We will signpost trustees, scheme managers and others to existing material and create further practical tools and products to help those managing pension schemes apply our messages to their own circumstances and take action (eg checklists, templates, best practice examples and case studies).

We note respondents' comments about the volume and accessibility of material on our website and agree that this is an area for improvement. We will start to make changes next year to streamline our guidance and improve the functionality of our website. In particular, we intend to consolidate some of our guidance into key overarching pieces of guidance to cover the principles or issues common to all pension schemes.

We will make better use of our data (for instance scheme return data, scheme return compliance patterns or research information) to segment schemes and trustees or managers so we target our efforts and resources on those schemes that pose higher risk or require more support. This will also enable us to tailor our messages and products to the characteristics or needs of our audience. We will also consider how we can use behavioural insight techniques to make our communications more effective.

Other key parties such as employers, advisers and service providers have their role to play in ensuring a scheme is well run. We will therefore consider how we can engage with those parties and their representative bodies to improve scheme governance.

We expect to start our education campaign in spring next year.

Enforcement

We'll take enforcement action where trustees or managers are unable or unwilling to meet the standards of governance and competence we expect, despite the additional support we provide. We will be updating our compliance and enforcement policy as necessary.

We expect trustees to meet basic administrative duties and have already fined trustees for failing to complete the scheme return, and for failing to prepare a chair's statement. We intend to look more closely at trustees who consistently fail to meet our expectations around broader competence and governance standards. We will consider using our powers more widely, including (but not limited to) penalty notices, improvement notices, independent trustee appointments and trustee prohibitions, where we find governance and administration standards are poor. To educate and help other trustees or managers improve standards we will publicise our regulatory actions through intervention reports under section 89 of the Pensions Act 2004.

The longer term

Many respondents have told us that mandatory qualifications are not the best way of ensuring and measuring board competence. We agree that, on their own, they are unlikely to address failures to comply with competence and governance expectations. We think a more holistic approach is needed. In the first instance, as we explained, we'll provide greater clarity on our expectations around board competence and good governance, supported by greater targeted enforcement. We'll then consider the evidence from our drive to improve standards of competence and governance as to whether a 'Fit and Proper' regime, including barriers to entry, may help, further taking into account the experience from the new master trust authorisation regime, IORP2 requirements and the experience of other regulators both here and abroad.

In parallel to refocusing our education and enforcement approach, we are considering what other solutions, such as consolidation and greater transparency, could help address governance and administration failings and raise standards.

We'll engage with DWP and industry to identify barriers to consolidation and how they can be overcome.

Consolidation

As part of our education and enforcement drive, we'll encourage trustees, particularly those of small DC schemes, to assess whether they fall short of the required standards and if they can't improve or find it difficult to achieve value for members, to consider whether alternatives such as consolidating their scheme into another scheme may be more beneficial.

We recognise, however, that consolidation is a complex issue, as highlighted in the responses, and that it's important to guard against member detriment. We'll engage with the Department for Work and Pensions (DWP) and industry to identify barriers to consolidation and how they can be overcome. We will explore the range of viable options available from shared service platforms, to consolidated trustee boards, to full scheme consolidation within, for example, authorised master trusts.

Reporting on governance

Greater accountability and transparency can improve board effectiveness and many respondents have advocated greater reporting on compliance with governance standards. We have recently announced that we would ask trustees to report on record-keeping in their scheme return to help improve standards and enable us to target our interventions more specifically at those failing in their duties. The new requirement for DC trustee boards to prepare a chair's statement outlining how the scheme meets good governance in areas such as TKU, investments and value for members will also encourage the trustees of these schemes to focus on scheme governance and board competence.

There is currently no such requirement for DB schemes. We'll consider with DWP how best to encourage DB schemes to deliver good governance and value for money for their sponsoring employer, and explore which framework – eg scheme return reporting or a more formal governance statement – may work best in the context of DB schemes' specific circumstances and existing reporting requirements.

Ongoing engagement

We'll continue to engage actively with government partners and industry, and welcome thoughts and comments on any aspect of pension scheme governance at 21Ctrustees@tpr.gov.uk.

Appendix 1

Discussion questions at a glance

1. There are currently no barriers to entry for professional trustees. Should there be? For example, should all professional trustees be required to be qualified or registered by a professional body?

2. Do you think it is the role of the chair of trustees to support trustees and use their leadership skills to improve the likelihood of appropriate scheme processes being put in place? Given the crucial role played by chairs, do you think more needs to be done to raise the standards of trustee chairmanship? For instance, do you think that chairs should be required to meet a minimum standard through having minimum qualifications or experience or belonging to a professional body?

3. Should the requirement to appoint a chair and report on compliance with governance standards be introduced for DB schemes?

4. How can we help trustees to be aware of, understand and apply the TKU framework?

5. Do you have any views as to how we can help new trustees bring their knowledge and skills up to the required standard within the statutory period? For instance would it be useful to make completion of the Trustee toolkit or other equivalent learning tool within six months mandatory? Or would the introduction of a six-month probationary period for new trustees help to meet standards of TKU? What are the difficulties associated with these options and how could these be solved?

6. How can trustees demonstrate they have the minimum level of competence required to fulfil their role? For instance, do you think holding relevant qualifications is the right way to demonstrate competence? What are the difficulties associated with this option and how could these be solved? Are there other options?

7. Do you have a view as to whether a CPD framework would assist trustees to meet the challenges of scheme governance? What are the difficulties associated with this option and how could they be solved?

8. What further education tools and products would you find useful to receive from us?

9. What do you think is the best way of managing conflicts of interests? How could the system be improved to reduce the likelihood of conflicts arising in the first place?

10. What do you think are the key challenges faced by trustees in engaging effectively with administration and investment governance and third party providers and advisers? What could we do to help them in addition to what we outline above?

11. What should be done with those schemes that are unwilling or unable to deliver good governance and member outcomes? In particular, should small schemes be encouraged or forced to exit the market or to consolidate into larger scale provision? Is regulatory intervention required to facilitate this or can it be achieved through existing market forces?

12. Would you find it useful to see overarching guidance covering issues common to all schemes, with more specific issues being covered in technical guidance?

13. Do you have any other thoughts on the issues raised in this paper or on how standards of trusteeship and quality of governance?

Appendix 2

List of respondents

100 Group Pensions Committee

Allan Martin

Allen & Overy LLP

Association of Member-nominated Trustees (AMNT)

Andrew Ramsay

Aon Hewitt

Association of Pension Lawyers (APL)

Association of Professional Pension Trustees (APPT)

Baker & McKenzie

Barnet Waddingham

BESTrustees

Bob Jackson

BT Pension Scheme Management Limited

Capita

Capital Cranfield Trustees

Cardano

Centre for Financial Regulation and Innovation (University of Strathclyde Business School)

Certified Financial Analyst (CFA) Society of the UK

ClientEarth

CMS Cameron McKenna LLP

Dalriada Trustees

David Blair

Derek Scott

Doug Hunt

Eversheds LLP

Frank Purdy

Frank Shore

Glenn Fallows

Gordon Blum

Gowling WLG

HR Trustees

Hymans Robertson LLP

Independent Trustee Services

Institute of Chartered Accountants in England and Wales (ICAEW)

James Meenan

Jeffrey Carruthers

JLT Employee Benefits

Kingfisher pension scheme

Lloyds Banking Group Pensions Trustees Limited

mallowstreet

Martin Vasey

Mercer

Muse Advisory

Nick Hogwood

Nim Maradas

NOW: Pensions

Peter Sparkes

Pensions and Lifetime Savings Association (PLSA)

Pensions Management Institute (PMI)

Pi Consulting

PSIT Independent Trustees

PTL

PwC

Railways Pension Trustee Company Limited (RPTCL) and RPMI Limited (RPMI)

Rothesay Life

Sacker & Partners LLP

Sarah Franklin

ShareAction

Society of Pension Professionals (SPP)

Squire Patton Boggs (UK) LLP and The Trustee Corporation Limited

Stella Girvin

Superannuation Arrangements of the University of London (SAUL) Trustee Company

Susan Sayce, Norwich Business School

Tesco

The Law Debenture Pension Trust Corporation

The People's Pension

Trades Union Congress (TUC)

Transparency Task Force

UK Power Networks

UK Sustainable Investment and Finance Association (UKSIF)

UNPRI (Principles for Responsible Investment)

Welplan Pension Trustees

Whitbread Group plc

Willis Towers Watson

How to contact us

Napier House
Trafalgar Place
Brighton
BN1 4DW

www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

www.pensionseducationportal.com
Free online learning for those running public service schemes

21st Century Trusteeship and Governance
Discussion paper response

The Pensions Regulator

Croydon Council

REPORT TO:	**Local Pension Board** **5 July 2018**
SUBJECT:	**Review of Risk Register**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 To comment on the risks recorded on the risk register for the Pension Fund.

2. EXECUTIVE SUMMARY

2.1 It is recommended best practice for the Pension Committee to maintain a risk register. This report presents the current Pension Fund risk register for the Pension Board'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 Pensions Board with the full register covering risks relating to governance, funding, assets and liabilities, and operational risks.

3.2 The Board 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 An excerpt from the risk register (showing amber and red risks only) is reviewed periodically by officers and brought back to the Pensions Committee for its consideration twice each year – the register was most recently reviewed in December 2017 and June 2018. Members may 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 most recent updates to the register, apart from refreshing and updating the status of existing risks, are:

- Academies are much better at reporting on their staff;
- Acknowledging the governance review;
- Reflecting the S.13 GAD report;
- The MiFID II exercise has been completed; and
- In keeping with the recommendations of the Pensions Regulator, the risks around cyber security have been included here too.

3.5 The register shows that the most significant risks for the Scheme relate to cessation valuation debts not being paid; academies not paying contributions; and investments under-performing. The register is appended to this report: 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

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

BACKGROUND DOCUMENTS: None

APPENDICES: Appendix A: Risk Register for the Pension Committee

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Governance Risks										
There is a current risk that academies are not abiding by their statutory reponsibilities as Scheme employers. This involves not transmitting information about staff, which means that pension benefits cannot be accurately calculated.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. This has proved to be an effective strategy.	3	3	9	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 trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to the Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	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
Pending a comprehensive review of the governance arrangements for the Scheme and Fund there is a risk that the authority will not be compliant with the current regulatory framework. This could result in sanctions or reputational damage.	Governance and Compliance Manager	A review of the current governance arrangements has been commissioned which should highlight any areas of concern.	3	3	9	Implement the findings of the governance review.	3	2	6
Funding - Assets and Liabilities										
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 liablities. 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

There is a current risk that academies are not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. The most significant case, in terms of contributions due, is currently being considered by the Pensions Ombudsman.	3	5	15	This is likely to be an issue requiring attention for some time.	3	5	15
Under the S.13 reporting regime, the Government Actuary Department, (GAD), form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, this fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the fund.	Nigel Cook	The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years.	4	3	12	The authority will revisit the funding position at the next triennial valuation and can adjust contribution levels.	4	2	8
Investment Risks									
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.	Matthew Hallett	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse porfolio, 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.	4	4	16	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.	5	2	10
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.	Nigel Cook	Extensive due diligence has been undertaken by the consultants involved in establishing the CIV. Moreover, the CIV is undertaking an extensive overhaul of its governance arrangements.	4	3	12	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.	3	2	6

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.	Matthew Hallett	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.	4	3	12	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18	4	3	12
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.	Matthew Hallett	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.	4	3	12	By 2019 the overweight position in equities should have been invested in alternate asset classes thus reducing this risk.	3	2	6
Operational Risks									
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.	Nigel Cook	All counter-parties (including fund managers, banks, and advisors) have been contacted and all have agreed to opt up the authority to elective professional investor status.	4	2	8	In the long-run the process that has been developed in-house should allow the Pension Fund to be treated as a professional investor.	3	2	6

Risk Matrix

LIKELIHOOD		IMPACT: 1 Insignificant	2 Minor	3 Moderate	4 Major	5 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

Croydon Council

REPORT TO:	**Local Pension Board** **5 July 2018**
SUBJECT:	**Pensions Governance Review**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Ensuring that the Pension Fund is being given appropriate guidance and direction through the governance of the Pension Committee.	
FINANCIAL SUMMARY: The costs relating to this exercise will be charged to the Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 To note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This report considers the work commissioned to update the review of the governance arrangements in place for the Croydon Pension Scheme.

3 DETAIL

3.1 One of the first tasks undertaken by the Pension Board at its instigation was to commission a review of governance arrangements for the Croydon Local Government Pension Scheme. This was competed in 2016. Regulation 55 of the local Government Pension Scheme Regulations 2013 requires Local Government Pension Schemes (LGPS) Administering Authorities to measure their governance arrangements against the standards set out in the Statutory Guidance issued by the Secretary of State for Communities and Local Government. Compliance against these standards was assessed in March 2017 as part of the process of drafting the authority's Governance Compliance Statement and the authority was compliant in all respects. This compliance needs to be reviewed annually. The Pensions Regulator has published a Code of Practice, number 14, which is directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes.

3.2 There is a substantial body of reporting on the governance arrangements in place for the authority. However there are some points that need reviewing, including outstanding actions from the Pension Board commissioned report and compliance against the Pension Regulator's Code of Practice.

3.3 The contract for Governance Consultancy for the Croydon Scheme was awarded, under the National Local Government Pension Scheme Framework, to AON Hewitt.

3.4 Officers have discussed the areas that need considering and commissioned AON to address the following issues:

- Look at the recommendations (reds and ambers) from the last report and assess the Fund's progress against these, using the same methodology as the previous review.
- Where there have been any new policies produced or an existing policy updated, to conduct a full assessment of that policy. (It would not be the intention to recheck any area that had previously highlighted as satisfactory).
- Consider the governance arrangements in relation to the evolution to asset pooling through the London CIV. This would cover areas such as:
- Is the reporting in relation to the Fund evolving effectively and does it provide the necessary information?
- Does the risk management reflect the move to the London CIV?
- Has the administering authority's governance structure been updated as necessary and
- How effective is the process for making decisions relating to the CIV?

3.5 The Review will also include a comparison with the results of the 2016 exercise. This would involve the completion of effectiveness questionnaires so that there can be a meaningful comparison with the results from last time; the reach of this exercise would include the officers, Committee and Board.

4 FINANCIAL CONSIDERATIONS

4.1 There are no direct financial considerations relating to 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

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

BACKGROUND DOCUMENTS: None

APPENDICES: None

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Croydon Council

REPORT TO:	**Local Pension Board** **5 July 2018**
SUBJECT:	**London Borough of Croydon Pension Fund: Property Transfer Proposal**
LEAD OFFICER:	**Richard Simpson, Executive Director Resources and Section 151 Officer**
PERSON LEADING AT THE BOARD MEETING	**Nigel Cook, Head of Pensions and Treasury**

1. EXECUTIVE SUMMARY

1.1 This report was referred to the Pension Committee on 5 June 2018. The report delegated authority to the Executive Director of Resources to obtain specialist advice, including in relation to the legal implications and risks, and to develop appropriate proposals regarding the asset transfer initiative with a view to providing a comprehensive report to a later meeting of the Pension Committee, for consideration.

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 June 2018 Pension Committee attached to this report.

2.2 To comment on the contents contained therein and report back to the Pension Committee.

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

BACKGROUND DOCUMENTS: None

APPENDICES: None

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REPORT TO:	**LOCAL PENSION BOARD** **5 July 2018**
SUBJECT:	**Agenda Papers of last Pension Committee**
LEAD OFFICER:	**Richard Simpson, Executive Director Resources and section 151 Officer**
LEAD MEMBER:	**Councillor Pelling, Chair of Pension Committee**
PERSON LEADING AT THE BOARD MEETING:	**Michael Ellsmore, Chair of Pension Board**

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 June 2018. Items 8, 10 and 11 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 June 2018 Pension Committee agenda papers attached to this report at **Appendix A**.

CONTACT OFFICER: Stephanie Davis,
Democratic Services and Governance Officer
020 8726 6000 x84384

ATTACHMENTS:

Appendix A: 5 June 2018 Pension Committee Part A Papers

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Croydon Council

REPORT TO:	**PENSION COMMITTEE** **5 June 2018**
SUBJECT:	**Progress Report for Quarter Ended 31 March 2018**
LEAD OFFICER:	**Richard Simpson** **Executive Director of Resources**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

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

FINANCIAL SUMMARY:

This report shows that the market value of the Pension Fund (the Fund) investments as at 31 March 2018 was £1122.3m compared to £1150.4m at 31 December 2017, a decrease of £28.1m and a return of -2.44% 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.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1 RECOMMENDATIONS

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

2 EXECUTIVE SUMMARY

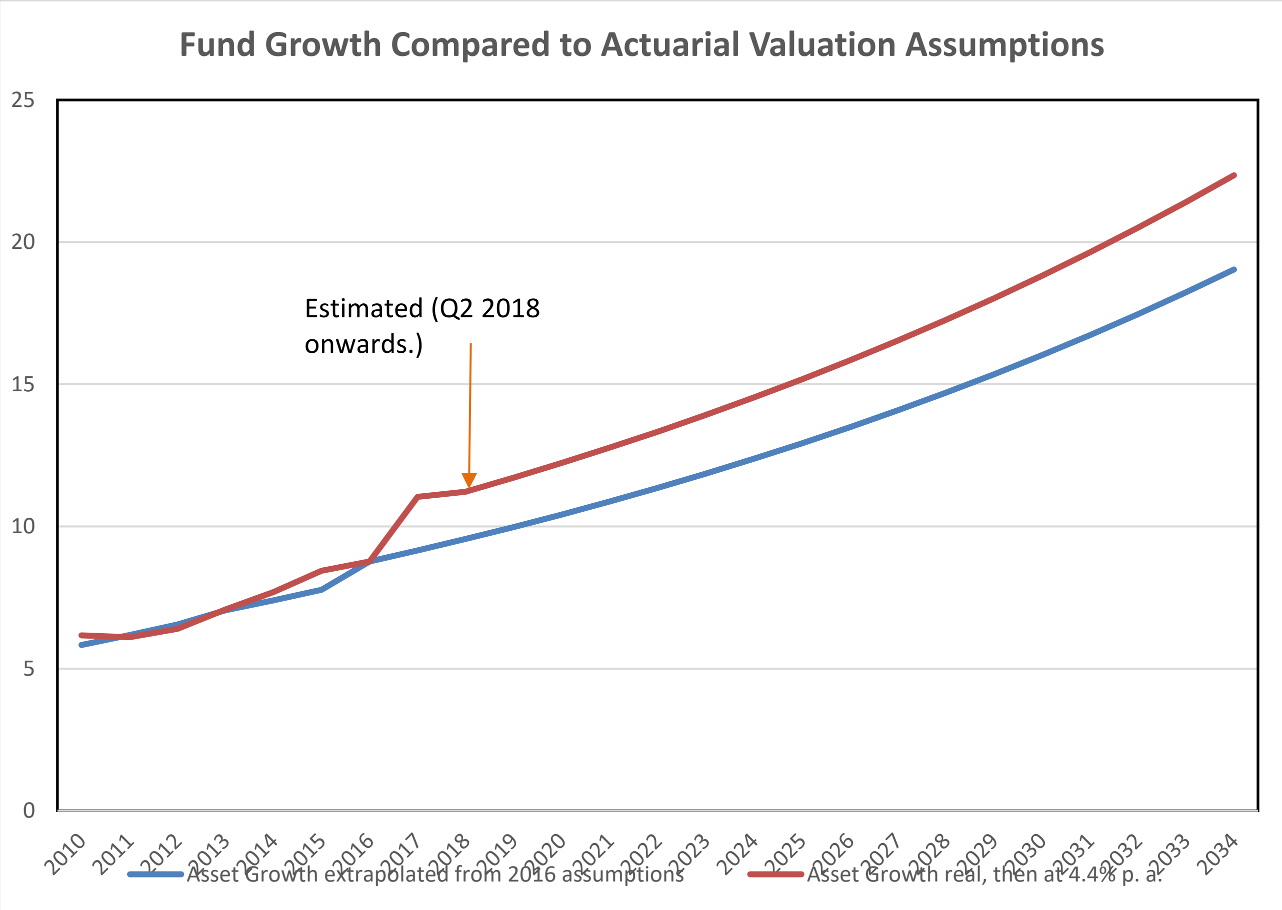
2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 31 March 2018. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied, specifically current and planned investments. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report.

3 DETAIL

Section 1: Performance

3.1 The 2016 Triennial Actuarial Valuation used 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 measure 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. 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 Schroders 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, less emphasis should be put on 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%
Comprised of:			
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**

To recap, since the revised asset allocation was agreed £69.2m 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, £71m in infrastructure, £25m in Private Rental Sector property and £16.4m in traditional property.

3.6.1 **Private Equity –** During the quarter net distributions of £0.7m were paid from our existing private equity managers. The current allocation to this asset class is 7.9% of the Fund. Markham Rae have reassessed the opportunity set for their offering and have agreed with officers that they will not be taking this forwards. The allocation is considered on target.

Allocation: On target.

3.6.2 **Infrastructure –** During the quarter a net distribution of £2.3m was paid out by existing managers. Positive returns of £3.9m were generated in the quarter meaning the allocation percentage increased to 10%, which is the target allocation for this asset class. It should be noted though that this class generates cash yield so it is necessary to periodically top up commitments to maintain this level of investments.

Allocation: On target which is ahead of the original planned date of 31 December 2019.

3.6.3 **Traditional Property –** During the quarter positive returns of £2.5m meant the allocation remained on target; the ½ % over-weight is within acceptable tolerances.

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 fund is generating positive returns. The allocation remained at 2.2% over the quarter. Officers anticipate the second tranche to be 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 51.6% which is fractionally lower than reported for the previous quarter but still outside of the agreed tolerances. Despite falling in value by £27.6m this part of the portfolio is still significantly overweight representing a risk. Markets on both side of the Atlantic fell in February ending a pro-longed period of steady growth but not the end of the current bull market. Because the portfolio's equity exposure is passively managed the Fund will see more volatility and this will be inevitably amplified by this overweight position.

3.6.6 As noted by the Committee in the last quarter's Progress Report, £50m is to be transitioned from the LGIM fund into a Janus Henderson Emerging Markets fund managed by the London CIV.

3.6.7 **Fixed Interest –** The Fund remains below the lower end of the target range in its fixed income allocation and this is largely due to outperformance of other assets. As outlined in the previous quarter's progress report officers have explored the use of private debt as an option to close this gap. Officers will continue to explore options on private debt subject to the committee's views focusing first on any offering from the London CIV.

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 31 March 2018

	Valuation at 31/12/2017 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 31/03/2018 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					**51.6%**	**42%**
Legal & General FTSE4Good	1,562	-1,377	-94	92		
Lega & General FTSE World (Ex Tobacco)	604,904	1,377	-27,470	578,812		
Fixed Interest					**17.1%**	**23%**
Standard Life	129,367	-	-651	128,716		
Wellington	63,816	-	-125	63,692		
Infrastructure					**10.0%**	**10%**
Access	12,910	-2,352	-156	10,403		
Temporis	17,248	1,886	1,452	20,586		
Equitix	55,115	-890	2,617	56,842		
Green Investment bank	25,618	-1,019	-	24,599		
Private Equity					**7.9%**	**8%**
Knightsbridge	19,633	418	-160	19,892		
Pantheon	59,629	-1,210	-1,856	56,563		
Access	11,141	62	344	11,547		
North Sea	796	-	-10	786		
Markham Rae	-1	-6	7	-		
Property					**10.5%**	**10%**
Schroders	114,842	-	2,492	117,334		
Property PRS					**2.2%**	**6%**
M&G	24,896	-	333	25,229		
Cash					**0.6%**	**1%**
Cash	8,919	-1,577	-129	7,213		
Fund Total	**1,150,397**	**-4,688**	**-23,404**	**1,122,304**	**100%**	**100%**

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 are outside the allowable variance. Officers believe that this over-weight position has had advantages in the short-term. However this position is not consistent with the Fund investment strategy. Efforts are being made to rebalance further the portfolio and, in particular as referenced earlier, the London CIV is being considered in order to correct the under-weight position in fixed interest products, based on it meeting the funds objectives.

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. Of greater concern is the fact that little progress has been made by either party towards a negotiated position.

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 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.

3.14 AON Hewitt, the Fund's investment advisor, have drafted a Manager Monitoring Report, a Market Review for the 3 months to 31 March 2018 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

3.15 Members of the Pensions Committee visited Pantheon in January and Janus Henderson, to discuss their Emerging Markets offering, in February. Knightsbridge met with members in March; the meeting covered the evolution of different vintage funds, prospects for the market and performance.

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 Council Solicitor comments that there are no additional legal implications arising from the recommendations in this report, which is for information purposes only.

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

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

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

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

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

Appendices: **Part A Appendices**: Appendix A: Fund Returns

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

Appendix B: AON Hewitt Manager Monitoring Report
Appendix C: AON Hewitt Market Review: 3 months to 31 March 2018
Appendix D: AON Hewitt Quarterly Investment Outlook

Appendix A

London Borough of Croydon fund returns for the period ending 31 March 2018

EQUITIES						
L&G Ex tobacco	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	-4.5%				-2.9%	
Benchmark	-4.6%				-2.9%	
L&G Ex FTSE4Good	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	0.0%	11.1%			10.4%	
Benchmark	0.0%	11.2%			10.5%	
FIXED INTEREST						
Standard Life	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	-0.5%	0.5%	2.2%	3.0%	4.5%	
Benchmark	-0.2%	1.1%	2.6%	3.5%	4.6%	
Wellington	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	-0.2%	1.0%	3.2%	4.3%	6.4%	
Benchmark	-0.2%	2.6%	4.5%	4.8%	6.3%	
INFRASTRUCTURE						
Equitix	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	5.2%	11.4%	6.8%	19.8%	14.9%	
Benchmark	1.3%	7.4%	6.7%	6.4%	7.3%	
Temporis	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	9.2%	10.24%			6.4%	
Benchmark	1.3%	7.44%			7.6%	
GIB	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	0.0%	11.1%			7.2%	
Benchmark	1.3%	7.4%			8.0%	
PRIVATE EQUTIY						
Knightsbridge	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	-0.8%	-1.1%	8.8%	16.1%	11.8%	
Benchmark	1.3%	7.4%	6.7%	6.4%	7.1%	
Pantheon	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	-3.9%	7.9%	14.9%	13.2%	12.5%	
Benchmark	1.3%	7.4%	6.7%	6.4%	7.2%	
Access	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	3.3%	12.9%			10.3%	
Benchmark	1.3%	7.4%			7.6%	
North Sea Capital	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	0.0%	0.0%	0.0%	0.0%	0.0%	too early
Benchmark	1.3%				8.0%	too early
PROPERTY						
Schroders	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	2.2%	10.3%	7.5%	11.0%	10.2%	
Benchmark	1.9%	12.3%	9.1%	10.7%	9.5%	
PROPERTY PRS						
M&G	**Quarter**	**1 year**	**3 year**	**5 year**	**inception**	
Fund	1.34%	1.85%	0.00%	0.00%	0.48%	
Benchmark	1.90%	9.98%	0.00%	0.00%	7.75%	
Total Fund						
	Quarter	**1 year**	**3 year**	**5yr**	**inception**	
Fund	-2.04%	3.85%	8.75%	9.20%	8.07%	
CPI + 4%	1.01%	6.44%	5.74%	5.36%	6.26%	

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.

Croydon Council

REPORT TO:	**Pension Committee** **5 June 2018**
SUBJECT:	**Forward Plan**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Ensuring that the pension fund is being given appropriate guidance and direction through the governance of the Pension Committee.	
FINANCIAL SUMMARY: 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.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 That the Committee note the business plan for the coming 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 2018/2019 forward plan which forms a business plan for the Committee.

3 DETAIL

3.1 The forward plan below sets out an agenda for each quarterly meeting to be held in the remainder of 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. During the period 2017/2018 members of the Committee visited: Legal & General; Standard Life (now Aberdeen Standard Life), Wellington, Schroders, Pantheon, and Knightsbridge. In June 2017 the Committee set aside a say to meet the roster of new managers, including Temporis, Access, Green Investment Bank, North Sea Capital, M&G and Markham Rae. A potential list of managers to visit during 2018 and into 2019 might include: Access Capital Partners; Temporis; Macquarie (for the Green Investment Bank); I-Squared; North Sea Capital; and M&G. Progress moving assets into the London CIV pooling arrangements will impact upon this schedule.

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. A review against the CIPFA Knowledge and Skills Framework would be invaluable in informing this programme.

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.

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

3.7.1 **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
- Investment Strategy Statement, consider revisions, including
    - Review London CIV against Investment Strategy Statement (ISS) guidance (regulation (7) (2) d)
    - Review of ESG investment principles for inclusion in ISS
- GAD review of funding levels
- Review and adopt:

- Discretion's policy for the Council;
- Training policy for the Committee, Board and officers;
- Cessation Policy;
- Communications Policy; and
- Terms of Reference for the Committee.

3.7.2 **4 December 2018**

- Progress report quarter ending September 2018 performance
- Risk Register review
- Forward Plan review
- Options for asset transfer into the Fund.
- Adopt revised Investment Strategy Statement
- 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 **12 March 2019**

- Progress report quarter ending December 2018 performance
- Report back from Pensions Board
- KPIs

3.7.4 **May /June 2019**

- Progress report quarter ending March 2019 performance
- Governance annual review
- Report back from Pensions Board
- Risk Register review
- Forward Plan review

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 that there are no legal implications arising from the recommendations to the report.

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

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

APPENDICES: None

BACKGROUND DOCUMENTS: None

Croydon Council

REPORT TO:	**Pension Committee** **5 June 2018**
SUBJECT:	**Renewal of Investment Advisor Contract**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: The Pension Committee is responsible for the investment strategy for the Pension Fund. This report deals with the investment advice supporting those investment decisions.

FINANCIAL SUMMARY:

This proposal has significant implications for the Council and the Pension Fund as investment decisions influence the Council's finances. The costs of investment advice and consultancy is charged to the Pension Fund.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1. RECOMMENDATIONS

1.1 The Committee is asked to note the outcome of this process.

2. EXECUTIVE SUMMARY

2.1 This report outlines the process by which the investment advice contract has been awarded.

3 DETAIL

3.1 This note provides an update on the result of the exercise to award of the Pensions Investment Consultancy contract to Mercer Ltd for a term of 7 years for a total contract value in the sum of approximately £430,000. This contract has been awarded through the National Local Government Pension Scheme Framework and the process has been endorsed by the Contracts and Commissioning Board.

Background

3.2 The National LGPS Frameworks were set up in 2011 for Pension Funds to collaborate in delivering benefits both locally and nationally across the LGPS. This initiative is directly in line with the Government's agenda for delivering greater value for money, alongside the reformed LGPS. Croydon Council's Pension Fund ("The Fund") helped found the National LGPS Frameworks, recognising that using a framework could save significant time and money, whilst still delivering a service tailored to local requirements and supporting local decision-making and accountability.

3.3 The National LGPS Frameworks are OJEU compliant enabling a faster, more efficient and less costly process of procuring contracts. The Fund has already committed a significant amount of resources into the creation of the Frameworks so it is pertinent that this investment, offering as it does a number of benefits, is leveraged in awarding these contracts.

The current service provision

3.4 Investment consultancy is a regulatory requirement that all decisions relating to the management of the Pension Fund are supported by 'proper advice', defined as follows:

"proper advice", in relation to an administering authority, means the advice of a person whom the authority reasonably believes to be qualified by their ability in and practical experience of financial matters.

3.5 There are a limited number of firms in the market that provide this service and over the recent period the Fund has used Mercers and lately Aon Hewitt. Aon Hewitt support the Pensions Committee by commenting on reports, assessing the performance and suitability of investments, commenting on markets, advising on various pertinent matters and attending committee meetings. They additionally contribute to a great of policy work relating to asset allocation and governance arrangements.

The future service provision

3.6 As a collaboration with a number of other administering authorities Croydon was involved in setting up the National LGPS Framework. This Investment Consultancy Services Framework meets the Fund's service requirements which the author confirms is open to all Fund members to access and which this report seeks approval to use. The framework comprises several lots with multiple providers.

Investment Consultancy Services framework

3.7 Norfolk County Council, the Contracting Authority, conducted an OJEU Open Procurement process in July 2017 (OJEU ref 2017/S 136-279225). The framework has been launched and consists of 3 lots, namely:

Lot 1 – Investment Consultancy Services

Provides a wide range of advisory services in relation to investment management support services. There are 8 providers appointed on this lot. Call-off contracts can only be awarded via further competition.

Lot 2 – Manager Search/Selection/Monitoring and Review
Provides a wide range of advisory services in relation to the appointment of investment management support services. There are 10 providers appointed on this lot. Call-off contracts can be awarded either via further competition or direct award.

Lot 3 – Investment Management Consultancy-Related Specialist Project Services
Enables a wide range of discrete pieces of specialist, investment-related work. There are 20 providers appointed on this lot. Call-off contracts can only be awarded via further competition.

3.8 The Fund is seeking to appoint a provider under Lot 1 (Investment Consultancy Services) to provide support and advice to the Pensions Committee. To deliver the Manager Monitoring and Review services the call-off contract will be via direct award under Lot 2. This is because the services directly complement the advice provided under Lot 1. To meet the Manager Searches requirement The Fund is seeking to appoint a provider via further competition under Lot 2.

Contract term

3.9 For the Pensions Investment Consultancy Services component the term for the call-off contract under Lot 1 will be for a fixed period of 7 years. The contract will commence on 1st June 2018. The call-off contract for Manager Monitoring and Review services will be for a fixed period of 7 years. The contract will also commence on 1st June 2018. The Fund will call off from Lot 2 for Manager Searches as and when required.

Preferred procurement process

3.10 As per the National LGPS Framework instructions, the Council, (on behalf of The Fund), ran a further competition, via its e-tendering portal in order to access Lots 1 and 2 of the Pension Investment Consultancy Framework. The Council will follow The National LGPS Frameworks direct award process to access Pension Investment Consultancy Lot 2 when required.

3.11 Following a mini competition each of the six suppliers on the Framework: Aon Hewitt Ltd.; Hymans Robertson LLP; JLT Benefit Solutions Ltd.; KPMG LLP; Mercer Ltd.; and Redington Ltd. responded. These firms represent the totality of businesses currently able to deliver these services and hence local authority contracts competition was not restricted by using the framework. The bids were evaluated in accordance with the Council's published evaluation methodology on the basis of the Most Economically Advantageous Tender (MEAT); a combination of quality 40% and cost 60% as agreed in the strategy report. The scoring panel's results are summarised in the table below:

	Aon Hewitt Ltd.	Hymans Robertson LLP	JLT Benefit Solutions Ltd.	KPMG LLP	Mercer Ltd.	Redington Ltd.
Quality	44	45	41	45	53	39
Price	26	36	39	35	29	16
Total	**70**	**81**	**80**	**80**	**82**	**55**

3.12 According to this methodology Mercer Ltd has been awarded the contract. The award decision is delegated to the Cabinet Member for Finance and Resources.

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 that there are no additional legal implications arising from the recommendations in this report.

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

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

APPENDICES: None

BACKGROUND DOCUMENTS: None

Croydon Council

REPORT TO:	**Local Pension Board** **5 July 2018**
SUBJECT:	**Proposals for LGPS Fund Reporting in a 'Pooled World'**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
WARDS:	**All**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report describes a way to report on the delivery of asset pooling in a way that allows for transparent understanding of costs and performance.	
FINANCIAL SUMMARY: There are no direct financial considerations.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 To note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This report describes the proposal for LGPS fund reporting within the context of pooling investments.

3 DETAIL

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have put forward a proposal for revised reporting for Local Government Pension Scheme (LGPS) Funds. This report describes those proposals. There are a number of objectives that this proposals should help achieve:

3.1.1 Government requirements for

- measuring progress by funds in transitioning assets into pools;
- transparent reporting of costs and performance by the LGPS funds and pools;
- demonstrating that active management of investments provides added value to the scheme; and
- measuring increased capacity for cost-effective investment in infrastructure.

3.1.2 To take forward the aims of the Code of Transparency in reporting costs.

3.1.3 To develop the current asset allocation reporting in order to avoid the majority of assets being consolidated into the Pooled Investment Vehicles (PIV) line within the pension fund accounts.

3.2 The intention of this proposal is that this information will be reported in the Pension Fund's annual report.

3.3 There are four principles under-pinning this proposal:

- To disclose fully all investment costs impacting on the return available to the fund,
- To analyse costs to an appropriate level of granularity ensuring an effective balance between regulatory requirements, usefulness to readers, resource demands on fund officers and commercial sensitivity;
- To report costs and performance in a consistent manner which meets the government's requirements and enables the LGPS Scheme Advisory Board to consolidate reporting of those items to the pool and scheme level; and
- To separate effectively the set-up and ongoing costs of asset pools at fund level.

3.4 Pooled assets are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers – has been contractually transferred to a third party out with the individual pension fund's control. How these requirements (the four principles) are applied in practice must depend on the operating model the authority has chosen to adopt.

3.5 The proposal sets out detailed suggestions for reporting the activities underlying the objectives set out in paragraph 3.1 ff. These include:

- Measuring transition of assets to asset pools.
- Cost reporting (set up costs; commissions, fees and taxes; and ongoing investment management costs).

- Ongoing Investment Management Costs.
- Asset allocation and performance. Here the proposal is that gross and net return are reported by asset class and against both the performance of the relevant passive index and against the local performance benchmarks as set out in the pension fund's investment strategy. It is proposed that performance should be measured over one-, three- and five-year timeframes.

3.6 The proposal suggests that the pools are analysed into the following categories

- Active listed equity
- Active fixed income
- Passive listed equity
- Passive listed income
- Private debt
- Property
- Unlisted equity
- Infrastructure
- Cash
- Multi-Asset Funds/ Diversified Growth Funds
- Other

3.7 Finally the proposal suggests a definition of infrastructure, which is a key aspect of the pooling agenda.

3.7.1 Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- substantially backed by durable physical assets;
- long life and low risk of obsolescence;
- identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;
- revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry; and
- returns to show limited correlation to other asset classes.

3.7.2 Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

3.7.3 Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be. Infrastructure service companies would not normally be included.

4 FINANCIAL CONSIDERATIONS

4.1 There are no direct financial considerations relating to 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

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

BACKGROUND DOCUMENTS: None

APPENDICES: None

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Agenda Item 15

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