

Pension Board Agenda



To: Michael Ellsmore (Chair)

Richard Elliott, Teresa Fritz, Ava Payne, David Wickman and Cllr
Maggie Mansell

A meeting of the **Pension Board** which you are hereby summoned to attend, will be held on **Thursday, 18 October 2018** at **2.00 pm** in **F10 - Town Hall**

JACQUELINE HARRIS BAKER
Director of Law and Governance
London Borough of Croydon
Bernard Weatherill House
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www.croydon.gov.uk/meetings
Wednesday, 10 October 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 - 10)

To approve the minutes of the meeting held on 5 July 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. London CIV

A presentation will be provided at the meeting.

6. Forward plan (Pages 11 - 14)

To comment on, amend and approve the Board's work plan.

7. LGPS governance updates (Pages 15 - 18)

To take an update and comment on governance updates to the Local Government Pension Scheme.

8. **Key performance indicators** (Pages 19 - 28)
To review the key performance indicators of the scheme.
9. **Risk register** (Pages 29 - 34)
To consider the Pension Fund current risk register.
10. **Investment strategy statement review** (Pages 35 - 44)
To approve the Investment Strategy Statement.
11. **Progress report for quarter ended 30 June 2018** (Pages 45 - 52)
To consider and note the contents of the progress report.
12. **Pension fund annual report** (Pages 53 - 54)
To note the content of the annual report.
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. **Progress report for quarter ended 30 June 2018 (restricted)** (Pages 55 - 74)
To consider and note the contents of the progress report.
15. **Review of fixed income portfolio (restricted)** (Pages 75 - 90)
To consider and note the content of the report.

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Pension Board

Meeting of held on Thursday, 5 July 2018 at 2.00 pm in F10 - Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Michael Ellsmore (Chair)
Councillor Maggie Mansell,
Richard Elliott, Ava Payne and David Wickman

Also Present: Nigel Cook, Head of Pensions and Treasury
Dave Simpson
Councillor Andrew Pelling

Apologies: Theresa Fritz

PART A

26/18 **Minutes of the Previous Meeting**

The Board RESOLVED to approve the Part A minutes of the 29 March 2018 meeting as a correct record.

27/18 **Disclosure of Interests**

There were none.

28/18 **Urgent Business (if any)**

There were no items of urgent business.

29/18 **Scheme Advisory Board Annual Report**

The Head of Pensions and Treasury introduced the report which covered governance, funding, membership, investment, benefits and the financial auditor and advisor statements.

A Board Member commented that the average Local Authority investment return was 19% and Croydon's was 21.4%, this good performance was noted.

The Head of Pensions and Treasury stated that Croydon's performance was good as the Fund had been over weight in equities.

In response to a Member question on whether the returns were net of fees, officers responded that they were and 8.7% on 30 year return was good.

The Board **Noted** the contents of the report

30/18 **Pensions Regulator Survey**

The Head of Pensions and Treasury introduced the report which interpreted findings and expectations following the survey of public pension schemes in autumn 2017 completed by those running the schemes. The survey had been effective in producing coverage of 101 administering authorities in England and Wales.

The survey was important in capturing information on governance, record keeping and internal controls. It also highlighted the need for the Pension Board to keep track of the work of the Pension Committee and those administering the schemes.

Board members were encouraged to utilise the Trustee toolkit accessible via the Pensions Regulator website which contained various resources and online learning to better support knowledge and understanding as introduced by the Pensions Act 2004.

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

31/18 **The Pensions Regulator's 21st Century Trusteeship Campaign**

The Board was provided with an outline of the considerations of the key themes of the discussion paper which included the importance of diversity, working with third parties, managing conflicts of interest, working with advisors and a range of other themes. This was in order to gain a holistic view on how bodies and the pensions industry could raise standards and improve governance

The findings reinforced the need for good governance. The Board was also informed of a Member Learning and Development session that was planned for the Pensions Committee in September 2018 and were encouraged to attend.

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

32/18 **Risk Register Review**

The Board was presented with the full register of risks relating to governance, funding , assets and liabilities, and operation risks as considered by the General Purpose and Audit Committee.

The Board considered whether some risks should be pre-empted in order to minimise impact and commented on risks associated with recruitment.

The Head of Pension and Treasury stated that there are many challenges with recruitment, in particular for teams where a high level of expertise was required.

The Board Members commented that a lack of resources was a risk to the effectiveness of the Administration of the scheme and would encourage recruitment of at least two full time members of staff to support the pension's team. It was also suggested that if there were difficulties in recruiting an experienced professional an alternative would be to recruit internally with a view to develop the individual..

The Board **Noted** the contents of the report and acknowledges significant risks due to issues with recruitment and lack of resources.

33/18 **Governance Review**

The Head of Pensions and Treasury presented the report which detailed the work commissioned by the board to review the governance arrangements for the Croydon Local Government Pension Scheme.

The Contract for governance consultancy was awarded to AON Hewitt who will report back by December 2018 on their assessment as to whether the Council maintained compliance with best practice

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

34/18 **Options for Property Transfer Proposal**

The Head of Pensions and Treasury introduced the report which detailed the delegation of authority to the Executive Director of Resources to obtain specialist advice in order to develop proposals regarding the asset transfer initiative. This paper was presented to the 5 June 2018 Pensions Committee meeting and the Executive Director of resources was directed to provide a comprehensive report to a later meeting of the Committee.

The Board was informed that Croydon had set up partnerships to address the issues of housing shortages.

It was acknowledged that there were legal risks associated with this proposal, such as regulatory risks if the government made changes to associated rules,

investment risks and political risks around suitability of investment on UK GDP.

The Board learnt that the proposals were ground-breaking but not unique to Croydon. Actuaries had been commissioned to work out the proposals as well as to evaluate and consider the impact on employer contributions.

In response to a Board Member question on whether the proposal was to purchase existing or build new homes, officers stated that 100 had been bought already and they were not all exclusively within the boundaries of Croydon.

In response to whether this meant that assets were being double counted, officers stated that gifting and double counting was not the case.

In response to a question as to whether the pension fund would benefit from the rent generated, the Board was informed that the rent would go to the Croydon Affordable Homes Initiative as this was a proposed solution to the housing situation.

The Board expressed concerns over the potential conflict of interest between the Council as the largest employer and as the administering authority.

Councillor Andrew Pelling, Chair of the Pensions Committee stated that he understood the reservations by Board members as this was also expressed by Members of the Pensions Committee and as a result had requested a meeting to be held to specifically consider the proposals in detail prior to its presentation at the Council meeting.

The Board **Resolved** that

(i) The Council had to display that conflicts of interest that arise are managed appropriately.

(ii) The further reports referred to above should be presented to a later meeting of the Pensions Board for consideration.

35/18 **Review of Pension Committee Agenda**

The Board was presented with the agenda papers that were presented to the Pensions Committee at its 5 June 2018 meeting. In particular the Board Members were directed to the renewal of Investment Advisor Contract paper which highlighted the award of contract to Mercers as appointed by the executive.

The Board **Noted** the contents of the reports.

36/18 **LGPS Funding reporting in a 'Pooled World'.**

The Board was presented with the proposals by CIPFA for revised reporting for LGPS funds. This would allow for greater transparency, understanding of costs and performance.

Details would be reported annually to the board on performance.

The Board **Noted** the contents of the report

37/18 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.

38/18 Minutes of the Previous Meeting

The Part B Minutes of the 29 March 2018 meeting were agreed as an accurate record

39/18 Review of Pension Committee Agenda

The Board received the Part B papers of the meeting of the 5 June 2018 Pensions Committee.

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

The meeting ended at 4.00 pm

Signed:

Date:

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Croydon Council

REPORT TO:	Local Pension Board 18 October 2018
AGENDA ITEM:	6
SUBJECT:	Forward Plan, 2018 / 2019
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT:	
Sound Financial Management: In order to demonstrate effective governance the Board should have a clear plan of what it needs to achieve and how this will be delivered.	
FINANCIAL SUMMARY: Good governance leads to better decisions which should benefit the Council through better investment performance for the Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

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

2 EXECUTIVE SUMMARY

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

3 DETAIL

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

- Assist the Administering Authority (Croydon Council) in its role as a Scheme Manager of the Scheme;
- To secure compliance with the Scheme Regulations and any other legislation relating to the governance and administration of the LGPS;
- To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- In such other matters as the LGPS regulations may specify;
- Secure effective and efficient governance and administration of the LGPS for the Fund;
- Provide the Scheme Manager with such information as is required to ensure any member of the LBP or person to be appointed to the LPB does not have a conflict of interest.

- 3.2 In order for the Board to carry out this role a piece of work is required to assist the Board in devising a Workplan which identifies which key activities the Board should be carrying out (and when) in order to demonstrate effective performance of its role.
- 3.3 Subject to the considerations of this Board, the following is a suggestion for the topics to be covered over the next period (noting that meeting dates have not all been confirmed). Each meeting will also be able to review the papers presented to the Pension Committee, which typically will meet a month before.

10th January 2019

Administration Key Performance Indicators

Cost transparency

Approach to Triennial Actuarial Valuation

Review:

- 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.

Issues raised by the Scheme Advisory Board

26th March 2019

Risk Register Review

Review of savings achieved / cost reductions by London CIV

Forward Plan Review

Issues raised by the Scheme Advisory Board

June / July 2019

Administration Key Performance Indicators

Annual Report, Statement of Accounts and Audit of the Croydon Pension Fund

Scheme Advisory Board Annual Report

Issues raised by the Scheme Advisory Board

October 2019

Revised Investment Strategy Statement

Risk Register Review

Forward Plan review

Issues raised by the Scheme Advisory Board

Review Funding Strategy Statement

January 2020

Administration Key Performance Indicators

Issues raised by the Scheme Advisory Board

March 2020

Issues raised by the Scheme Advisory Board

Risk Register Review

Review of savings achieved / cost reductions by London CIV

Forward Plan Review

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

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

4 CONSULTATION

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

5 FINANCIAL CONSIDERATIONS

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

7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

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

CONTACT OFFICER:

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

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Croydon Council

REPORT TO:	Local Pension Board 18 October 2018
AGENDA ITEM:	7
SUBJECT:	LGPS Governance Updates
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>Sound Financial Management: The Pension Board assists with ensuring the effective administration of the Local Government Pension. This report highlights various issues that impact on that administration.</p>	
<p>FINANCIAL SUMMARY: There are no direct financial implications relating to this report.</p>	
<p>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</p>	

1 RECOMMENDATIONS

- 1.1 The Board is asked to note the issues raised in this report.

2. EXECUTIVE SUMMARY

- 2.1 This report deals with various issues being considered by the LGPS Scheme Advisory Board, including reporting on the adequacy of the level of funding, the cost cap mechanism and the separation of Pension Funds from administering authorities.

3 DETAIL

- 3.1 The LGPS Scheme Advisory Board exists to guide the administration of the LGPS by considering various issues of interest to LGPS members. It publishes guidance, conducts surveys and undertakes detailed work that individual schemes cannot resource. It reports directly to the Secretary of State on these matters and consideration of the overall affordability of the Scheme. Below, three of the items on its current work-plan are discussed.

Report under Section 13 of the Public Service Pension Scheme into the 2016 Valuation

- 3.2 Since the sign off the 2016 valuations in March 2017 the Government Actuary's Department (GAD) have been carrying out their review of the 2016 local funding

valuations as required under Section 13 of the Public Services Pensions Act 2013 (commonly referred to as the “Section 13 valuation”). The purpose of the Section 13 valuation is to ensure local valuations are carried out such that they:

- Comply with the Regulations (“Compliance”)
- Are not inconsistent with one another (“Consistency”)
- Ensure solvency of the fund (“Solvency”)
- Are fair between generations (“Long term cost efficiency”)

3.3 GAD were appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to carry out this work and they have taken an in-depth analytical and detailed approach. GAD have no experience of carrying out valuations of LGPS funds and setting funding plans, so they have therefore consulted with and relied on the four firms who provide actuarial advice to the LGPS to explain funding plans and fulfil their data requests. These four include Hymans Robertson, the Croydon Scheme Actuary.

3.4 The GAD report’s findings are largely positive with no concerns over compliance, noting a movement towards greater consistency across funds’ valuations, a general improvement in funding levels and with a recommendation that all funds review their funding strategy for compliance with the current guidance. This authority was flagged up because of the size of the gap from the mean recorded value for LGPS’s funding levels. However, GAD have confirmed that they are in the round satisfied with this level of funding and will not take any further action.

3.5 In summary GAD’s findings are that in aggregate the Local Government Pension Scheme is in a strong financial position and funds have made significant progress since the 2013 valuation based on their criteria. The final version of the report highlights:

- total assets for the Local Government Pension Scheme have grown from £180 billion to £217 billion;
- aggregate funding level has improved from 79% to 85%, due in part to better than expected returns on assets and strong returns have continued; and
- total employer contributions received were £6.9 billion per annum on average of which circa £2 billion per annum were deficit recovery payments.

Quadrennial Valuation of the Public Service Pension Schemes

3.6 In a Written Ministerial Statement on the 6th September 2018, the Chief Secretary to the Treasury, Elizabeth Truss, announced details of the quadrennial valuation of the public service pension schemes, including the Local Government Pension Scheme in England and Wales. The LGPS is established in a different way to the unfunded public sector schemes in that there is the scheme advisory board which operates a cost cap process. These four-yearly valuations have two key purposes:

- To measure the costs of the scheme against a target rate; the “employer cost cap”: This implements the cost cap mechanism which shares the risks of unexpected costs between members and taxpayers. However, note that the Scheme Advisory Board provides another step in this control process.
- To set the employer contribution rate: When combined with member contributions, contributions are expected to meet the full cost of pension

benefits being earned, including past service effects.

- 3.7 The employer cost cap is not directly comparable to the employer contribution rate. This is because the cost cap mechanism does not calculate the full cost of the scheme, as members do not share in all scheme risks. Various elements needed to capture the full cost of the scheme are excluded from the cost cap mechanism - for example, the cost cap mechanism is not affected by changes in actuarial methodology or changes to the discount rate used and does not measure costs associated with deferred or pensioner members of the pre-reformed schemes.
- 3.8 For the avoidance of doubt, the current triennial valuation to determine local employer contribution rates will continue on a three-year cycle but the GAD valuation, to determine the value for the cost cap, will operate on this four-year cycle.

Options for Separation of Host Authority and Pension Fund

- 3.9 Finally, the Board is kicking off an exercise to develop options for the separation of LGPS pension funds from their host authorities and to potentially make a recommendation to the Secretary of State. This is part of the Board's current work plan. This review is centred on the issue of conflicts in the LGPS. This is principally in relation to the management of potential conflicts so that the chances of an actual conflict and the difficulties that may ensue are reduced. Wrapped into any review of conflicts are the wider issues of administration and investment performance, best practice and cost reduction measures (for instance where greater separation leads to greater costs).

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

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Croydon Council

REPORT TO:	Local Pension Board 18 October 2018
AGENDA ITEM:	8
SUBJECT:	LGPS Administration: Key Performance Indicators
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>Sound Financial Management: The Pension Committee is responsible for the effective administration of the Local Government Pension Scheme and the Pension Board is charged with supporting this activity. These Key Performance indicators provide a measure of how well that administration operates.</p>	
<p>FINANCIAL SUMMARY: Poor administration may ultimately lead to incorrect calculation or payment of benefits or indeed financial penalties.</p>	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

- 1.1 The Board is asked to note the Key Performance Indicators set out in this report.

2. EXECUTIVE SUMMARY

- 2.1 This report sets out Key Performance Indicators for the administration of the Local Government Pension Scheme for the period April 2017 to August 2018.

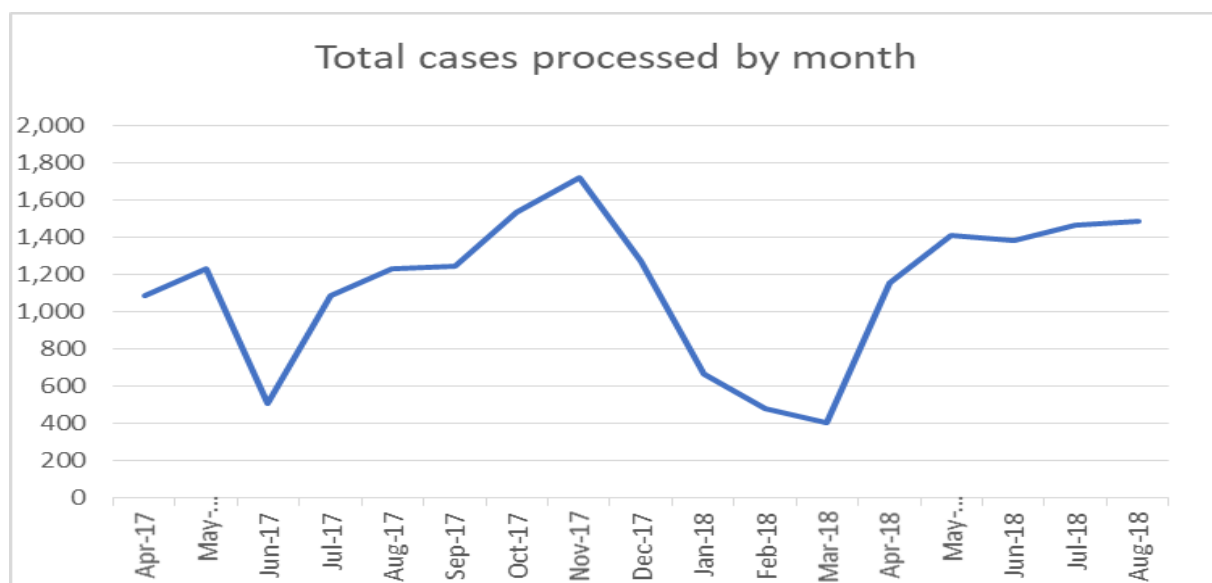
3 DETAIL

- 3.1 Good governance suggests that the performance of the administration of the Local Government Pension Scheme should be monitored. The standards by which performance can be assessed are set out in the Administration Strategy and published on the Scheme's website so as to be available for scrutiny by stakeholders, who include elected Members and other Scheme employers.
- 3.2 In November 2016 the Local Government Pension Scheme (LGPS) pensions administration teams reviewed and revised many of the systems and processes in place with the view to improving efficiency and performance. One of the changes made was to introduce the concept of measuring Business As Usual (BAU) activity separately from the inherited backlog cases. The backlog cases date to when the service was provided by an external service provider and was one of the reasons

that the service was brought back in house. This involves putting cases outstanding as at 6 November 2016 in to a “Backlog” file. All new cases received since that date are placed in BAU. This has enabled the team to manage their workload more effectively and help ensure all BAU cases are processed in line with the Key Performance Indicators (KPIs) as set out in the Administration Strategy as described above. Cases that are in this “Backlog” file are processed as and when resources become available. There are no death or retirement cases in this backlog.

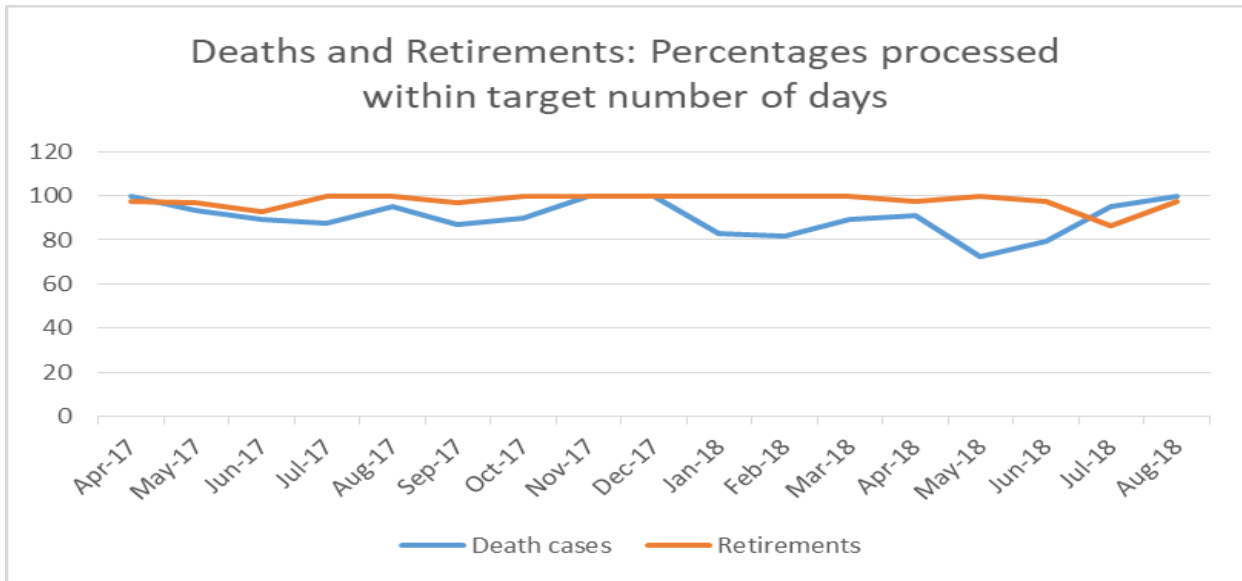
3.3 The following graph illustrates the total number of cases processed by the administration team, month by month.

Figure 1: Total Cases Processed by Month



3.4 The tables illustrating the administration team’s performance against the KPIs for priority cases: deaths and retirements are included at Figure 2 below. Additional data that show this indicator as well as the total number of cases processed by the team are included as an appendix to this report (Appendix A). The volume of cases processed each month remains high, averaging 1,138 each month.

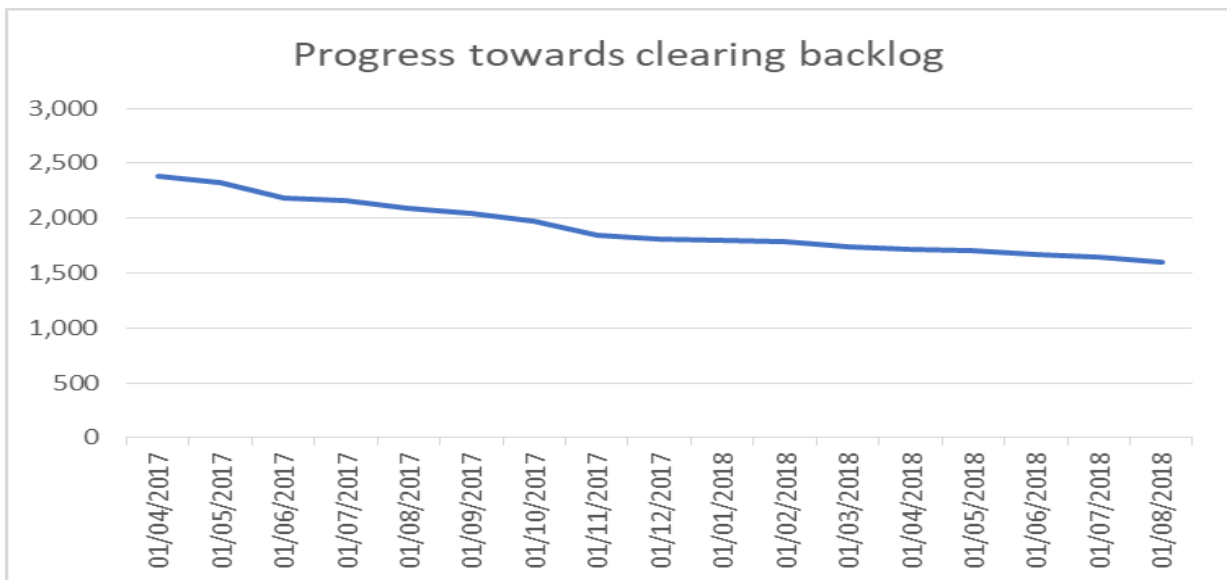
Figure 2: Deaths and Retirements: Percentages processed within the target number of days.



3.5 As can be seen from the figure above, death and retirement cases are overwhelmingly being processed with the target period of 5 and 10 days respectively.

3.6 Appendix B reports the position with regards to the project to address the backlog cases. The top-line figures are illustrated in this graph.

Figure 3: Progress towards clearing backlog cases



3.7 Together these figures point to high volumes of work but the revised processes described in this report are helping the team to keep on top of the workload.

3.8 The pensions team also carries out a number of “employer” functions mainly around ensuring the pay used for calculating benefits is correct. There are historic data issues which means that the time taken in dealing with some cases may be longer than would be considered ideal.

3.9 After a number of experienced colleagues left the team, a review of the requirements, objectives, and resources required to administer the LGPS was undertaken. As a result, a new team structure has been proposed which is designed to meet the challenges that will face the section over the next few years. The team now has recruited replacements with the new team members having started from mid-June to August. The new staff are not experienced in the LGPS so there will be some time before they are fully up and running. Clearly this has had and will continue to have an impact on the performance of the team. However, the remaining team members have worked extremely hard to ensure that the key case types, retirements and deaths, have been processed on time. The main targets for this year are to ensure new colleagues are trained in all areas of work, get up to date with BAU work and make better use of IT including rolling out the I-connect system to main employers and payroll providers. Depending on the success of this plan will depend on how quickly the historic backlog is addressed.

I-connect

3.10 The team has done a lot of work on developing Iconnect. This IT package will streamline the new starter process as well as identify leavers much earlier than was previously the case. The team is using Iconnect for the Council with the view to a managed roll out to other Scheme employers throughout the year. This has caused considerable work for the pensions team as they are resolving the data issues that would normally fall to the other Scheme employers. Although this causes short term additional administration resource pressures, it will generate benefits in the long run. The Iconnect package will be rolled out to other Scheme employers once there is assurance that there are the necessary resources available to provide similar administrative support for each employer.

Guaranteed Minimum Pension

3.11 The Guaranteed Minimum Pension (GMP) reconciliation project is progressing and should be completed in advance of the HMRC deadline of December 2018. This exercise requires pension scheme administrators to reconcile their membership and GMP data against the records held by HMRC. Any errors that come to light after this deadline may result in a liability for the Croydon scheme.

3.12 The majority of Annual Benefit Statements were produced so that there is no obligation to report a breach to the Pensions Regulator.

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: Business as Usual Cases (April 2017 to July 2018)

Appendix B: Backlog Cases

Appendix A: Business as Usual Cases (April 2017 to July 2018)

Case type	Month 2017	KPI (number of days to process)	Total cases processed	Average days taken to completed case	% with target	Total cases processed*
Deaths	April 2017	5	20	4	100	
Retirements	April 2017	10	39	5	97.5	
Total cases processed	April 2017					1,086
Deaths	May 2017	5	15	8	93.33	
Retirements	May 2017	10	29	7	96.55	
Total cases processed	May 2017					1,229
Deaths	June 2017	5	19	7	89.4	
Retirement	June 2017	10	28	5	92.8	
Total cases processed	June 2017					504
Deaths	July 2017	5	15	4	87.5	
Retirement	July 2017	10	32	3	100	
Total cases processed	July 2017					1,082
Deaths	August 2017	5	22	3	95	
Retirements	August 2017	10	25	4	100	
Total Cases	August 2017					1,233
Deaths	Sept 2017	5	30	4	87	
Retirements	Sept 2017	10	34	6	97	
Total Cases	Sept 2017					1,241
Deaths	October 2017	5	20	3	90	

Retirements	October 2017	10	39	4	100	
Total Cases*	October 2017					1,532
Deaths	Nov 2017	5	15	3	100	
Retirements	Nov 2017	10	39	4	100	
Total Cases*	Nov 2017					1,720
Deaths	Dec 2017	5	23	3	100	
Retirements	Dec 2017	10	26	5	100	
Total Cases*	Dec 2017					1,270
Deaths	January 2018	5	29	4	83	
Retirements	January 2018	10	37	37	100	
Total Cases*	January 2018					663
Deaths	Feb 2018	5	17	4	82	
Retirements	Feb 2018	10	19	5	100	
Total Cases*	Feb 2018					480
Deaths	March 2018	5	20	4	89	
Retirements	March 2018	10	30	5	100	
Total Cases*	March 2018					400
Deaths	April 2018	5	34	3	91.18	
Retirements	April 2018	10	43	3	97.67	
Total Cases*	April 2018					1,154
Deaths	May 2018	5	18	4	72.2	
Retirements	May 2018	10	17	3	100	

Total Cases*	May 2018					1,412
Deaths	June 2018	5	24	3	79.17	
Retirements	June 2018	10	38	4	97.37	
Total Cases*	June 2018					1,382
Deaths	July 2018	5	22	4	95.35	
Retirements	July 2018	10	43	5	86.36	
Total Cases*	July 2018					1,465
Deaths	August 2018	5	16	3	100	
Retirements	August 2018	10	38	6	100	
Total Cases Processed	August 2018					1,485

*Total cases processed includes all categories processed by the administration team in the month.

Appendix B: Backlog Cases

	Deferreds	Transfers	Combined	Misc	Total
April 2017	1,381	462	271	274	2,388
May 2017	1,356	431	271	261	2,319
June 2017	1,333	392	271	185	2,181
July 2017	1,325	385	268	181	2,159
August 2017	1,302	358	264	163	2,087
September 2017	1,287	352	259	144	2,042
October 2017	1,258	318	258	134	1,978
November 2017	1,251	301	255	36*	1,843
December 2017	1,240	281	252	35	1,808
January 2018	1,237	280	252	33	1,802
February 2018	1,225	277	250	33	1,785
March 2018	1,211	256	248	25	1,740
April 2018					
May 2018	1,195	232	247	27	1,701
June 2018	1,180	219	247	22	1,668
July 2108	1,172	210	243	21	1,646
August 2018	1,136	204	241	21	1,602

Note: 'Deferreds' relate to cases where the member of staff had in the past belonged to the LGPS but now did not and was not in receipt of a pension. 'Transfers' relate to scheme members transferring between administering authorities usually as part of a recruitment process.

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Croydon Council

REPORT TO:	Local Pension Board 18 October 2018
AGENDA ITEM:	9
SUBJECT:	Review of Risk Register
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT:	
Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
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 The Board is asked to note the contents of the Pension Fund’s Risk Register and to comment as appropriate.

2 EXECUTIVE SUMMARY

2.1 It is recommended best practice to maintain a risk register. This report presents the current risk register for the 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 Board with a report covering risks relating to governance, funding, assets and liabilities, and operational risks. The Risk Register was most recently considered by the Pensions Committee at its 5th June 2018 meeting.

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. Any comments can be referred back to the Committee for consideration.

3.3 The risk register is reviewed periodically and considered by the Pensions Committee twice each year. The Council maintains a corporate risk register: this Pension Fund risk register is distinct from that document and an innovation in that previously the

Council has not had the opportunity to formally track risks relating to the Fund and Scheme in such a comprehensive manner.

3.4 As a result of a review of risks, no new risks with a risk level of 12 or above have been identified but five risks have been de-escalated:

- Academies are much better at reporting on their staff;
- Acknowledging the governance review;
- Recognising the London CIV is now firmly established;
- Reflecting the S.13 GAD report; and
- The MiFID II exercise has been completed.

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. Brexit is addressed by the Corporate Risk Register. The register is appended to this report – it shows only those risks that are scored 12 or higher in the current year; risks are rated on a scale of 1 to 5 on likelihood and impact giving a range of potential scores between 1 and 25. Where a risk has been down-graded to below 12 it will be taken off this report. Similarly, new risks that are scored lower than the threshold noted above, do not feature on the register.

4 CONSULTATION

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

5 FINANCIAL CONSIDERATIONS

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

7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

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

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Finance, Investment and Risk ext. 62552.

Governance Risks									
There is a current risk that academies are not abiding by their statutory responsibilities as Scheme employers. This involves not transmitting information about staff, which means that pension benefits cannot be 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 liabilities. This is kept under constant review and Officers monitor the cashflow carefully on a monthly basis. The Council is currently forward funding the Pension Fund which provides a buffer. This cash will be invested in liquid assets to mitigate this risk.	3	4	12	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives and are in the process of amending the current policy of reinvesting dividend income to make up the shortfall. Investments have been identified that are dividend yielding.	3	2	6

<p>There is a current risk that academies are not paying over contributions, which involves the administering authority in incurring unnecessary costs.</p>	<p>Governance and Compliance Manager</p>	<p>The authority has retained legal advisors to mitigate this risk, possibly through legal channels. The most significant case, in terms of contributions due, is currently being considered by the Pensions Ombudsman.</p>	<p>3 5 15</p>	<p>This is likely to be an issue requiring attention for some time.</p>	<p>3 5 15</p>
<p>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.</p>	<p>Nigel Cook</p>	<p>The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years.</p>	<p>4 3 12</p>	<p>The authority will revisit the funding position at the next triennial valuation and can adjust contribution levels.</p>	<p>4 2 8</p>
<p>Investment Risks</p>					
<p>There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternates - which potentially leaves the Fund exposed to the possibility that class of assets will underperform relative to expectation.</p>	<p>Matthew Hallett</p>	<p>The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio, if it underperforms relative to expectation. It is recognised that the portfolio is currently overweight equities.</p>	<p>4 4 16</p>	<p>A new asset allocation was agreed in September 2015 and Officers are working on moving towards that allocation to remove the current overweight position towards equities.</p>	<p>5 2 10</p>
<p>In response to the requirement to pool LGPS assets Croydon has opted to join the London group and invest in certain assets through the London CIV. As this is an untried investment route there are inevitably risks and areas of uncertainty.</p>	<p>Nigel Cook</p>	<p>Extensive due diligence has been undertaken by the consultants involved in establishing the CIV. Moreover, the CIV is undertaking an extensive overhaul of its governance arrangements.</p>	<p>4 3 12</p>	<p>As a second wave investor the Pension Fund will have the opportunity to learn from others' experiences. Progress towards funding the CIV will be carefully monitored.</p>	<p>3 2 6</p>

<p>Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.</p>	Matthew Hallett	<p>The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.</p>	4 3 12	<p>Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18</p>	4 3 12
<p>There are a number of current specific geopolitical risks. The administration of US President Trump can be considered an unknown factor in so far as its impact on the US economy. To date this has been largely benign and the US markets have reacted positively. Other ongoing concerns include the impact of Brexit, the Euro crisis, the growth of the Chinese economy and the impact of populist movements.</p>	Matthew Hallett	<p>Equities have performed well to the extent that the Fund is currently over-weight in the asset class. This is being addressed by moving cash into alternate asset classes. Currency hedging is an option to address potential volatility as is some form of synthetic hedging.</p>	4 3 12	<p>By 2019 the overweight position in equities should have been invested in alternate asset classes thus reducing this risk.</p>	3 2 6
Operational Risks					
<p>The introduction of the second Markets in Financial Instruments Directive (MiFID II) this year presents a grave challenge to local authorities. As things stand all Local authorities including Croydon will be reclassified as retail clients from January 2018 under the terms of this Directive. Croydon will have to opt up to professional status otherwise there will be a fundamental impact on the team's ability to manage the Fund. The final criteria for opting up will be set by the FCA and each investment manager will need to assess Croydon against criteria before allowing Croydon to invest. As yet it is unclear whether or not Croydon will initially meet the criteria and what needs to be in place to meet it on an ongoing basis.</p>	Nigel Cook	<p>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.</p>	4 2 8	<p>In the long-run the process that has been developed in-house should allow the Pension Fund to be treated as a professional investor.</p>	3 2 6

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Croydon Council

REPORT TO:	Local Pension Board 18 October 2018
AGENDA ITEM:	10
SUBJECT:	Investment Strategy Statement Review
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT:	
Sound Financial Management: This report relates to the statutory requirement to set an Investment Strategy, a critical dimension of the management of the Pension Fund.	
FINANCIAL SUMMARY: There are no direct financial implications associated with this report but the continued viability of the Scheme depends on adherence to an effective investment strategy.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1	RECOMMENDATIONS
1.1	The Committee is invited to approve the Investment Strategy Statement. The Statement is attached as Appendix A to this report.

2 EXECUTIVE SUMMARY

- 2.1 This report asks the Board to consider the revised Investment Strategy Statement (“ISS”) which is included at Appendix A and which has been adopted by the Pensions Committee.

3 DETAIL

- 3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, brought into force on 1st November 2016, require that all LGPS administering authorities draft an Investment Strategy Statement (ISS). Further, the Regulations require that the Pensions Committee should review the ISS from time to time and at least every three years. In the event of any material change to any matter contained within the ISS, changes will be reflected within six months of the change occurring. The Regulations require all Administering Authorities take ‘proper advice’ when formulating investment strategy. The Council has consulted suitably qualified persons and has obtained advice from its investment consultant, Mercer and consulted Hymans Robertson, the Scheme Actuary.
- 3.2 This report presents the revised statement, reviewed to ensure compliance with the government guidance issued on 15th September 2016 and 12th July 2017. The revised statement is attached to this report as Appendix A. As all of the text has been reviewed and substantial sections re-drafted or added anew it is not

practical to provide tracked changes. Instead this report provides a narrative of the changes incorporated. The revised statement was adopted by the Pensions Committee at its 18th September 2018 meeting.

- 3.3 References to advisors and fund managers have been updated to reflect current arrangements. Asset allocation ranges have been revised to ensure compliance with the Regulations. There is more information about the qualities of assets and how they contribute to the performance of the portfolio. The risk management section has been revised to ensure that it is consistent with the current risk register. The section on asset pooling and the London CIV has been updated to reflect the present status of the sub-funds and this Fund's engagement with the pooling agenda. Finally, the Environmental, Social and Corporate Governance section has been redrafted to align with the Committee's approach to fossil fuels, tobacco and overall ESG issues. The section on Voting is substantially unchanged.

4 CONSULTATION

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

5 FINANCIAL CONSIDERATIONS

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

7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

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

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Finance, Investment and Risk ext. 62552.

Appendices

Appendix A: Revised Investment Strategy Statement.

Appendix A: Revised Investment Strategy Statement.

Investment Strategy Statement

(Effective 1 April 2017; Reviewed September 2018)

1 Introduction

- 1.1 The elected members of Croydon Council, acting through the Pension Committee, have drawn up this Investment Strategy Statement (ISS) as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, brought into force on 1st November 2016. This statement is compliant with the government guidance issued on 15th September 2016 and 12th July 2017.
- 1.2 As set out in these Regulations, the Committee will review the ISS from time to time and at least every three years. In the event of any material change to any matter contained within the ISS, changes will be reflected within six months of the change occurring.
- 1.3 The Regulations require all Administering Authorities take 'proper advice' when formulating investment strategy. The Council has consulted suitably qualified persons and has obtained advice from its investment consultant, Mercer and consulted Hymans Robertson, the Scheme Actuary.

2 Investment Objectives

- 2.1 The Fund's goal is to ensure there are sufficient assets to meet all liabilities as they fall due. In order to achieve this goal the Pensions Committee has adopted the following objectives:
 - 2.1.1 Achieve a return on investments which at least meets the assumed return (the discount rate) used by the Actuary when setting the triennial valuation.
 - 2.1.2 Keep risk within acceptable levels.
 - 2.1.3 Maintain liquidity requirements to pay liabilities when they fall due.
- 2.2 The investment objectives align with the Funding Strategy Statement. This statement sets out the four key measures that the Actuary has developed which capture the essence of the Fund's strategies, both the funding and this investment strategy. These include how much each employer can afford; and the question of stability, that is to say employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment. These objectives are often in conflict. In setting the Funding Strategy the Council has adopted a stabilisation approach that meets the need for stability of contributions without jeopardising the aim of prudent stewardship of the Fund.

3 Asset Allocation

- 3.1 In order to meet the Investment Objectives the Pensions Committee, in consultation with its Investment Adviser, has determined a suitable asset mix. The Pension Committee's interpretation of a suitable asset mix, is one which includes a variety of assets which are well understood, are less than perfectly correlated and which together are expected to meet the long term return objectives of the Fund. An asset mix which meets this criteria will be well diversified and improve the overall risk and return profile of the Fund increasing the likelihood of meeting the Investment Objectives. A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.
- 3.2 The Pensions Committee has identified four broad asset groups with the alternatives being split into four further classes. Cash is held as working capital and invested in Money Market Funds for short periods but is not considered as an investment asset, although fund managers may hold cash as part of their investment strategy. Desired targets and ranges have been assigned to each asset class. The holding in an asset class ought not to breach the upper end of the range. Table 1, below, sets out the maximum percentage of the total value of all investments of fund money that will be invested in each investments or class of investment. This replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Table 1 Asset Allocation

Asset Class	Target (%)	Operational Range (%)	Regulation Maximums (%)
Global Equities	42	37 - 47	60
Fixed Interest	23	15 - 28	28
Alternatives:	34	29 - 39	39
<i>Traditional Property</i>	<i>10</i>	<i>5-15</i>	<i>15</i>
<i>Private Rental Sector Property</i>	<i>6</i>	<i>2 - 8</i>	<i>8</i>
<i>Private Equity</i>	<i>8</i>	<i>5 - 13</i>	<i>13</i>
<i>Infrastructure</i>	<i>10</i>	<i>5 - 15</i>	<i>15</i>
Cash	1	0-10	Not applicable
Total Fund	100		

Note that the Regulations require that this investment strategy must set out the maximum percentage of the total value of all investments of fund money that will be invested in particular investments or classes of investment. The Target Allocations set out above are aspirational and for guidance only because of the inevitable fluctuations caused by market volatility. The operational range reflects experience and current forecasts.

- 3.3 As a general principle Croydon Council will actively seek to identify how the Pension Scheme could contribute to and invest in the Borough.

Global Equities

- 3.4 The Pensions Committee has selected a passive global equity mandate managed solely by Legal and General Investment Management. The objective of the mandate is to track the L&G World Developed (Ex Tobacco) Index Fund. The reasons for this decision is to: reduce concentration risk by increasing the number of stocks covered for investment; achieve a reduction in management fee; and to move to a fund which is considered as fulfilling the criteria for the requirement to pool assets. In addition it is considered important to invest in a pooled arrangement to allow currency hedging to be implemented fairly easily and cheaply. The equity holdings are now considered part of the London CIV for pooling purposes (see section below for more details of the Fund's strategy on asset pooling).

Fixed Interest

- 3.5 The Pensions Committee has appointed Standard Life and Wellington to manage its Fixed Interest allocation. Investments with Standard Life are in the Corporate Bond fund measuring performance against the Merrill Lynch non-gilt sterling all stocks index and the Absolute Return fund measuring performance against 3 month LIBOR. Performance of the Wellington bond fund is measured against the Merrill Lynch Sterling Broad Market Index.

Traditional Property

- 3.6 The Pensions Committee has appointed Schrodgers to manage its traditional property portfolio, investing mainly in UK commercial real estate, with an objective to outperform the Investment Property Databank (IPD) All Properties Index.

Private Rental Sector Property

- 3.7 The Pensions Committee has appointed M&G to manage its Private Rental Sector property portfolio, with an objective to achieve a return of 7%.

Private Equity

- 3.8 Four Private Equity managers have been selected enabling the Fund to benefit from increased diversification through investments in a variety of companies in different markets. These managers are: Pantheon, providing access to funds of funds in Europe, US and Asia; Knightsbridge, investing in Venture Capital predominantly in the US; Access Capital Partners, a European co-investment fund; and North Sea Capital, providing exposure to markets in northern Europe and Scandinavia. The objective of this part of the portfolio is to generate returns in excess of the Consumer Prices Index (CPI) plus 5%.

Infrastructure

3.9 This asset class is represented by four asset managers that have been selected in order to gain cost effective, diversified exposure to global infrastructure assets. These managers comprise: Equitix that focus on UK PFI / PPP / PF2 contracts; Temporis and the Green Investment Bank that allow the Fund to access different types of renewables; and I Squared Capital, that provides opportunities across global infrastructure funds and projects. The investments seek to generate satisfactory risk adjusted return and provide a hedge against inflation. Some of the investments aim to be more growth seeking and some aim to be income generating. The overall return objective for this part of the portfolio is to generate returns in excess of the Consumer Prices Index (CPI) plus 5%.

Cash

3.10 The objective is to maintain capital and hold enough cash to meet ongoing benefit payments.

Assets' Features

3.11 Each of these asset classes possess features that, in combination, address the strategic goals for the Croydon Scheme. The authority's assessment of the suitability of particular investments and types of investments can be summarised thus:

Equities	Over the long-run will deliver sufficient growth to address funding gap. Allows investment in wide range of sectors and geographic regions. Should beat inflation in the long run.
Fixed Interest	Matches liabilities of the Fund. Demonstrates, in normal scenarios, negative correlation to equities. Absolute return portfolio should provide downside protection and is not dependent on direction of interest rates. Government and blue chip corporate debt is relatively low risk and provides protection against falling interest rates.
Property	Does not correlate to equity or fixed interest. Provides steady cash flows. Provides some protection against inflation.
Private Equity	Similar benefits to equity but at different points on the cycle. Regional diversification. Access to otherwise closed markets.
Infrastructure	Diversification. Good spread of regions. Elements of regulated income. Mixture of growth and income generating assets.

4 Risk Management

4.1 There are various risks to which any pension fund is exposed. The Pension Committee has considered a number of risks such as:

- The risk arising through a mismatch between the Fund's assets and its liabilities.
- The risk of deterioration in the Fund's ongoing funding level.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return required to meet accrued and future liabilities as quantified by the Fund's Actuary.
- The risk that volatility resulting from various geopolitical factors will have an adverse effect on the long-term viability of the Fund. This risk is increased by having a majority of the fund under passive management.
- Exchange rate risk arises from investing in unhedged overseas assets with all liabilities due to be paid in sterling. As a long-term investor such volatility can be tolerated. The extent to which the Fund is diversified across asset classes, geography and approach to investments works to mitigate this risk.
- The risk of insufficient liquidity from the Fund's assets.

4.2 In order to mitigate the risks identified the Pensions Committee formulated the asset allocation having taken proper advice from its investment adviser. Various scenarios were tested and the probability of achieving full funding over a specified period of time was calculated in order to identify an asset mix which should fulfil the objectives. The main way to mitigate risk of the investment portfolio not achieving its objectives is through diversification of assets. This should provide protection in periods of market turmoil as some assets will preserve capital better than others and in rising markets some assets will perform better than others.

4.3 Risks specifically relating to the Pension Fund are included in a risk register that is regularly reviewed by both the Pension Committee (which considers the most significant risks) and the Croydon Pension Board (which looks at all the risks). The most immediate and significant risks are also included in the corporate risk register. Steps to mitigate risks in the short and longer-term are included in the register.

4.4 The Pension Fund's appetite for risk, in so far as generating returns is concerned, should be only that much as is sufficient to meet the return target set by the Funding Strategy Statement. Other risks should be mitigated as far as is possible.

4.5 The Pensions Committee constantly monitors the performance of managers to ensure the Fund's objectives are met.

5 Pooling of Assets

- 5.1 The Fund participates in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. Croydon is a shareholder, contributes regulatory capital and a subscription fee. The London CIV was launched in December 2015. It has launched a number of sub-funds comprising: UK, Global and Emerging Market equities; Multi-Asset and Fixed Interest Funds.
- 5.2 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform. At present there are options for participating in pooling: including transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds available to meet the Fund's investment strategy requirements; investing in sub-funds that meet the requirements of the Fund's investment strategy; and investing in assets that have been deemed part of the pooling strategy but which are assets that are not suitable for pooling in an ACS structure.
- 5.3 The Fund holds illiquid assets outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature. The Fund will continue to invest in illiquid assets outside of the London CIV pool, until suitable strategies are made available by the London CIV pool, in order to meet its asset allocation target.
- 5.4 Therefore, the proportion of assets that will be invested through the pool will be circa. 65%, depending on valuations. At year-end 2017/2018 51% of the Pension Fund should be considered pooled.
- 5.5 In establishing the framework for asset pooling the government recognised that investing in illiquid assets like infrastructure, direct holdings in property and locally targeted investments might more appropriately sit outside the pooling arrangements. The alternative asset classes listed above, property, private equity and infrastructure, are included in this group.

6 Environmental, Social and Corporate Governance (ESG)

- 6.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.
- 6.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

- 6.3 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. The Fund will disinvest from existing fossil fuel investments in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.
- 6.4 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.
- 6.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.
- 6.6 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.
- 6.7 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.
- 6.8 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

7 Voting

- 7.1 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

- 7.2 The Fund has delegated responsibility for voting rights to the Fund's external investment manager, currently LGIM, and expects them to vote in accordance with the Fund's voting policy.
- 7.3 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website.
- 7.4 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.
- 7.5 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.
- 7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- 7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.
- 7.8 In addition the Fund:
- Is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;
 - is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;
 - Joins wider lobbying activities where appropriate opportunities arise.

REPORT TO:	PENSION BOARD 10 October 2018
SUBJECT:	Progress Report for Quarter Ended 30 June 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:	
<p>Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.</p>	
FINANCIAL SUMMARY:	
<p>This report shows that the market value of the Pension Fund (the Fund) investments as at 30 June 2018 was £1,188.9m compared to £1,128.5m at 31 March 2018, an increase of £62m and a return of 5.5% 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 Mercer.</p>	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

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

2 EXECUTIVE SUMMARY

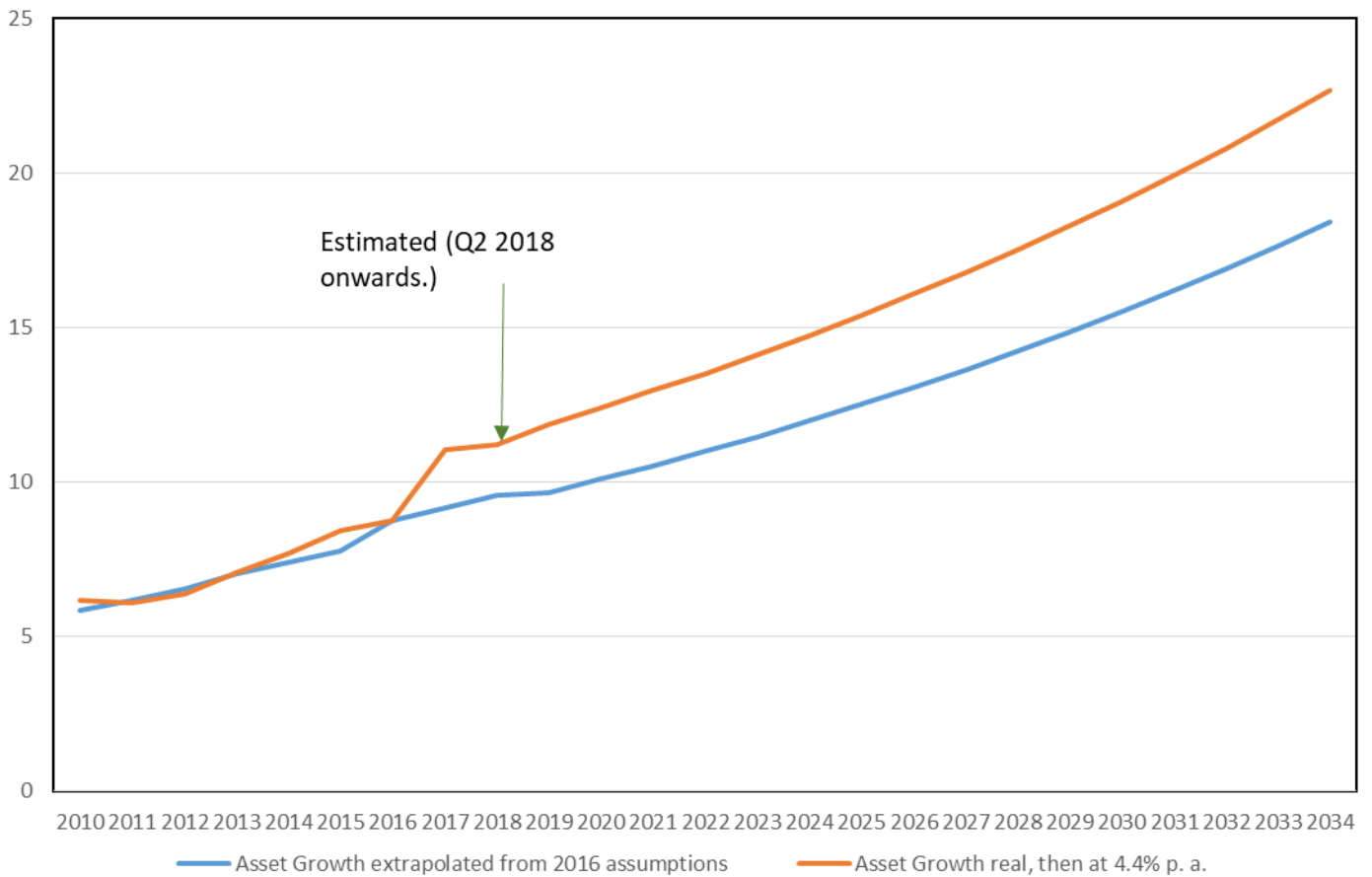
- 2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 30 June 2018. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how 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.

Fund Growth Compared to Actuarial Valuation Assumptions



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, North Sea Capital and M&G, and more attention should be made to the performance since inception for the more mature investments: Equitix, Knightsbridge and Pantheon. The whole of fund return uses the IRR as this is in line with the Actuary when calculating the valuation. It should be noted that the portfolio has been built on the premise that diversification mitigates the impact of return volatility, the performance of individual investments is less important than the return of the Fund in aggregate and certainly cannot be assessed over less than a full cycle, and the duration of the cycle will vary from asset to asset.

Section 2: Asset Allocation Strategy

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

3.5 This asset allocation will give rise to a portfolio which can be broken down as follows:

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

3.6 Progress towards revised asset allocation

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; £20m in private equity, £75m in infrastructure, £25.5m in Private Rental Sector property and £16.4m in traditional property.

3.6.1 **Private Equity** – During the quarter net distributions of £0.5m were paid from our existing private equity managers and positive returns of £11m were generated. The current allocation to this asset class is 8.4% of the Fund. The Fund's Private Equity assets are performing well and the allocation is considered on target.

Allocation: On target.

3.6.2 **Infrastructure** – During the quarter a net contribution of £1.5m was paid to our existing managers and £1.7m was paid to I Squared Capital, this being the first drawdown for this manager. Positive returns of £1.7m were generated in the quarter meaning and the allocation percentage remained constant at 9.9%. The Fund's Infrastructure assets are all performing well and the allocation is on target.

Allocation: On target.

3.6.3 **Traditional Property** – During the quarter positive returns of £2.6m meant the allocation remained on target.

Allocation: On target.

3.6.4 **Private Rental Sector** - The Fund signed a commitment of £25m to the M&G UK Residential Fund in January 2016 and during the quarter ending 31 December 2016

signed a commitment for a further £35m with M&G. The first tranche of £25m was fully drawn by 30 June 2017 and is generating positive returns. M&G have commenced drawdown of the second tranche with £0.5m being drawn in the quarter. A further £9m is to be drawn in the next quarter and we are expecting the final £25.5m to be drawn by 31 December 2018 as planned. The allocation remained at 2.2% over the quarter.

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 52.6% which is 1% more than reported for the previous quarter and still outside of the agreed tolerances. Our Global Equity portfolio increased by 8%, a value of £46.3m over the quarter, so the increase in the overweight allocation was not surprising. After the quarter end £15m was divested from our Global Equity portfolio to meet Fund expenditure and commitment drawdowns from our Infrastructure and Private Rental Sector assets.

3.6.6 £55m is being 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.

3.7 The table below illustrates the movement in the Fund’s valuation during the quarter and the current asset allocation against the target.

Fund valuation and asset allocation for the quarter ending 30 June 2018

	Valuation at 31/03/2018 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 30/06/2018 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					52.6%	42%
Legal & General FTSE4Good	92	-	71	162		
Legal & General FTSE World (Ex Tobacco)	578,812	-	46,294	625,106		
Fixed Interest					16.2%	23%
Standard Life	128,716	-	342	128,374		
Wellington	63,692	-	395	64,086		
Infrastructure					9.9%	10%
Access	10,403	- 954	110	9,559		
Temporis	20,586	185	92	20,863		
Equitix	56,842	2,775	646	60,262		
Green Investment bank	24,599	- 532	830	24,897		
ISquared	-	1,730	-	1,730		
Private Equity					8.4%	8%
Knightsbridge	19,892	749	2,384	23,025		
Pantheon	56,563	- 1,729	8,327	63,161		
Access	11,547	-	380	11,927		
North Sea	786	524	5	1,314		
Property					10.1%	10%
Schroders	117,334	-	2,634	119,969		
Property PRS					2.2%	6%
M&G	25,229	494	166	25,888		
Cash					0.7%	1%
Cash	13,396	- 4,835	15	8,576		
Fund Total	1,128,487	- 1,594	62,006	1,188,899	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. This position is not consistent with the Fund investment strategy. Efforts are being made to further rebalance the portfolio and products available through the London CIV are being considered.

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 Mercer, the Fund's investment advisor, have drafted a Fund Monitoring Report, for the 3 months to 30 June 2018. These reports are included in the closed part of this Committee agenda.

Section 4: Investment Manager Visit

- 3.12 Members of the Pensions Committee visited Equitix in July 2018 and the good progress of the Funds invested in was noted.

4 CONSULTATION

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

5 FINANCIAL CONSIDERATIONS

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

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Solicitor to the Council comments that there are no legal implications arising from the recommendations within this report, which is to note.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law, for and on behalf of Jacqueline Harris-Baker, Director of Law and Governance 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: Market Background and Market View Q2 2018, Mercer

Appendix A

London Borough of Croydon fund returns for the period ending 30 June 2018

EQUITIES					
L&G Ex tobacco	Quarter	1 year	3 year	5 year	inception
Fund	8.0%				4.8%
Benchmark	8.1%				5.0%
FIXED INTEREST					
Standard Life	Quarter	1 year	3 year	5 year	inception
Fund	-0.3%	-0.2%	2.7%	3.3%	4.3%
Benchmark	0.0%	0.8%	3.0%	3.7%	4.5%
Wellington	Quarter	1 year	3 year	5 year	inception
Fund	0.6%	2.5%	4.9%	5.3%	6.2%
Benchmark	0.1%	1.6%	4.9%	5.4%	5.9%
INFRASTRUCTURE					
Equitix	Quarter	1 year	3 year	5 year	inception
Fund	1.1%	10.3%	10.9%	12.1%	14.4%
Benchmark	1.4%	7.4%	6.8%	6.5%	7.2%
Temporis	Quarter	1 year	3 year	5 year	inception
Fund	0.4%	10.3%			5.6%
Benchmark	1.4%	7.4%			8.0%
GIB	Quarter	1 year	3 year	5 year	inception
Fund	3.6%	5.2%			8.2%
Benchmark	1.4%	7.4%			8.8%
PRIVATE EQUITY					
Knightsbridge	Quarter	1 year	3 year	5 year	inception
Fund	14.0%	7.6%	9.7%	6.0%	13.5%
Benchmark	1.4%	7.4%	6.8%	6.5%	7.2%
Pantheon	Quarter	1 year	3 year	5 year	inception
Fund	18.7%	16.9%	21.5%	16.1%	13.6%
Benchmark	1.4%	7.4%	6.8%	6.5%	7.3%
Access	Quarter	1 year	3 year	5 year	inception
Fund	3.5%	13.1%			10.8%
Benchmark	1.4%	7.4%			8.0%
North Sea Capital	Quarter	1 year	3 year	5 year	inception
Fund	0.8%				-20.4%
Benchmark	1.4%				8.8%
PROPERTY					
Schroders	Quarter	1 year	3 year	5 year	inception
Fund	2.3%	10.3%	7.0%	11.1%	10.1%
Benchmark	2.0%	9.7%	7.6%	10.6%	9.4%
PROPERTY PRS					
M&G	Quarter	1 year	3 year	5 year	inception
Fund	0.66%	4.10%			1.13%
Benchmark	1.71%	7.00%			7.00%
Total Fund					
	Quarter	1 year	3 year	5yr	inception
Fund	5.50%	8.24%	11.77%	10.42%	8.05%
CPI + 4%	1.18%	6.42%	5.84%	5.47%	6.29%

too early
too early

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.

REPORT TO:	Pension Board 10 October 2018
SUBJECT:	Pension Fund Annual Report
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:	
<p>Sound Financial Management: This report relates to the Croydon Council Pension Fund 2017/2018 Annual Report.</p>	
FINANCIAL SUMMARY:	
<p>There are no direct financial implications associated with this report although the Annual Report does incorporate the financial statements for the Pension Fund for the period 2017/2018.</p>	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1.	RECOMMENDATIONS
1.1	The Committee is invited to note the Croydon Council Pension Fund Annual Report. This is attached as Appendix A to this report.
1.2	The Committee is asked to note the contents of the Audit Findings Report from the Fund's auditors, which has been considered by the Council's General Purposes and Audit Committee.

2. EXECUTIVE SUMMARY

- 2.1 This report asks the Committee to note the Croydon Council Pension Fund Annual Report (Appendix A) and the Audit Findings Report (Appendix B).

3 DETAIL

- 3.1 The Croydon Council Pension Fund Annual Report for 2017/2018 is attached as Appendix A to this report. The Annual Report includes links to other key policy documents, including the Investment Strategy Statement and the Funding Strategy Statement.

3.2 The statement of accounts and audit findings report was considered by the General Purposes and Audit Committee (18th July 2018) as constituting those charged with governance under the regulatory framework. That Committee noted the ISA 260 (International Standards on Auditing) report for the Pension Fund issued by the Council's external auditors, Grant Thornton and also approved the letters of representation on behalf of the Pension Fund. These can be found on the Council's website here: <https://democracy.croydon.gov.uk/documents/s9072/GPAC%20Audit%20Findings%20Cover%20Report.pdf>

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 considerations arising from the recommendations within this report.

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

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

APPENDICES: Appendix A: Croydon Council Pension Fund Annual Report - <https://democracy.croydon.gov.uk/documents/s9072/GPAC%20Audit%20Findings%20Cover%20Report.pdf>

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

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