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Pension Board Agenda

To: Michael Ellsmore (Chair), Richard Elliott, Jerry Fitzpatrick, Teresa Fritz, Ava Watt and David Whickman and Councillor Jerry Fitzpatrick

A meeting of the **Pension Board** which you are hereby summoned to attend, will be held on **Tuesday, 26 March 2019** at **2.00 pm** in **F10 - Town Hall**

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

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www.croydon.gov.uk/meetings
Monday, 18 March 2019

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 10 January 2019 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. **Administration Update**

   An oral report will be provided by a member of the Administration Team.

6. **Cost Cap and the McCloud Case** (Pages 11 - 14)

   Members to be provided with an update on the McCloud case and the implications for the Local Government Pension Scheme.

7. **Scheme Advisory Board Horizon Scanning** (Pages 15 - 18)

   Members to consider the update report on horizon scanning.

8. **Consultation: draft statutory guidance on pooling assets** (Pages 19

- 34)

For Members to receive an update on the consultation response made on the draft statutory asset pooling guidance.

9. Risk Register Review (Pages 35 - 40)

For Members to consider all risks assessed at amber and above.

10. Currency hedging (Pages 41 - 52)

For Members of the Board to consider the case for implementing currency hedging for the equity investment part of the portfolio.

11. Pension Board Forward Plan (Pages 53 - 54)

For Members to consider the Board's forward plan.

12. Brexit: planning scenarios (Pages 55 - 58)

For Members to consider the possible implications arising from Brexit.

13. Audit Plan for the Local Government Pension Fund (Pages 59 - 72)

To receive for information, an update on the audit of the Pension Fund.

PART B

14. 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."

15. Property Asset Transfer (Pages 73 - 74)

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Pension Board

Meeting of the Pension Board held on Thursday, 10 January 2019 at 2.00 pm
in F10 - Town Hall

MINUTES

Present: Michael Ellsmore (Chair), Richard Elliot, Teresa Fritz and David Whickman

Also Present: Nigel Cook, Head of Pensions and Treasury
Mary Lambe, Senior Benefits & Governance Consultant, Aon

PART A

1/19 **Minutes of the Previous Meeting**

At the outset of the meeting, the Chair notified the Members of the Board that the death of Councillor Maggie Mansell had been announced. Councillor Mansell was noted for being a long serving Member of Council and a former Mayor. Her active contribution to the Board and her knowledge of the pension arena were noted. The Chair spoke on behalf of the other Board Members to express his sorrow at this news and to note that Councillor Mansell would be much missed.

The minutes (Part A) of the previous meeting held on 15 November 2018 were accepted as a true and accurate record.

2/19 **Disclosure of Interests**

There were no disclosures of interests.

3/19 **Urgent Business (if any)**

The Chair agreed to take an update on the governance review as an item of urgent business. Mary Lambe, Senior Benefits & Governance Consultant, Aon, was invited to provide the Board with an update report in anticipation of the final report of the governance review coming to the Board's meeting in March 2019. The Board was informed that Aon had been commissioned last year to undertake work in three key areas:

- Compliance with the Pensions Regulator's code of practice;
- A review of governance arrangements (and to compare this with the review conducted three years ago); and
- Look at the activity being conducted with the London CIV.

It was explained that all Board Members were to receive an effectiveness questionnaire as part of the review process. This would also be sent to Pension Committee Members and used to understand how Members feel about the effectiveness of meetings, the relevance of the training etc. It was highlighted that this would be provided electronically with all responses remaining anonymous. It was agreed that the questionnaire would come to the Board first and then go to the Committee. Members of the Pension Committee would receive a reminder that the questionnaire was to be provided.

The Board was reminded that it had been established for three years and that its terms of reference were focused on compliance and regulation; the review and resulting report were to enable prioritisation and areas for focus going forward. It was noted that the Board acts as a critical friend of the scheme administrator; the benefits of the relationship had become increasingly obvious.

Whilst the role of the Regulator was defined in legislation and the code of practice, there was increasing evidence of activity happening locally through the work of Pension Boards. The focus was on enabling and educating to ensure fund administrators were carrying out their work adequately. Where this work was not taking place the Regulator wanted to know what had happened, what was going to be done to address any issues and then would be active in ensuring that this happened. For example, through regular telephone calls regarding the implementation of any improvement plan. It was noted that whilst reference was made to the Regulator being able to issue fines these were yet to be seen. Impact was being achieved through the desire to avoid reputational damage.
In response to comments and questions from Board Members it was noted that:

- Administration of schemes was often the poor relation of the fund. Whilst resources might be limited, administration could not slip and this would be highlighted in the report;
- Findings were emerging from the compliance review being conducted by the Pension Regulator;
- The governance review was about 90% complete with findings positive. However, it had been found that there was still a need to focus in some areas. For example, training and ensuring conflict of interest policies were in place. These needed to be maintained and reviewed on a regular basis (every three years). How the Board’s training needs were assessed needed to be considered. It was noted that there was a legislative requirement for knowledge and understanding. It also had to be considered how this knowledge base could be demonstrated to the Regulator;
- Aon had its own governance framework tool which could be used to measure and undertake the governance review;
- Assessing progress against the recommendations made as part of the last review was in hand; it had been established that items such as putting in

place the risk register and expanding the terms of reference of the Pension Committee had been completed; and

- The information gathered would be used to benchmark the effectiveness of Croydon's Pension Board against others allowing learning to take place.

4/19 **Update report**

The Chair raised the issue of the report being tabled for the meeting and highlighted the need for it to be provided in advance. The Head of Pensions and Treasury gave his apologies noting the lateness had not resulted from staffing issues but from the degree of manual adjustment required; the system used to record and collate data was not straightforward.

In response to Board Member comments and questions, it was established that:

- The Head of Pensions post was vacant with this about to be advertised. It was highlighted that all posts in the team were filled apart from this role which was being covered by two team leaders;
- Around 1,000 business as usual cases were being processed each month. This included anything from an address change to notification of retirement. It was reported that work had started on the triennial valuation which had thrown up some errors. It was being explored if it was possible to allocate the administration to an external service to allow the service to catch-up. The resource involved in managing deferred pensions was specifically emphasised. Progress against the backlog of cases was reported; and
- Members requested to understand the extent of business as usual cases that were not being addressed within the month and therefore remained outstanding. The concern was to avoid a worsening situation in the future. It was agreed that this should be addressed once the new Head of Pensions was in post and could report on performance.

RESOLVED: The Board noted the content of the report and the information on Key Performance Indicators as set out including the section on staffing and the data scores as required by the Pensions Regulator.

5/19 **Asset transfer**

The Chair updated the Board; its response on the Property Asset Transfer had been shared with the Members of the Pension Committee following the meeting in November 2018. This had accurately reflected the Board's view (for example, including reference to protection for the non-Croydon Council employers and de minimis arrangements).

It was noted that the Pension Committee had agreed the Property Asset Transfer recommendation and that for the first time this had put the Committee and Board out of step with each other. This raised the question of whether this brought to a close the Board's responsibility on the matter. Members expressed their concern that a reduction in employer contributions at a time of uncertain economic conditions may result in a reduction in the value of the fund and possibly a larger deficit in the future. Whilst it was assumed it would be for the Council to address an increase in the deficit, it was noted that it would be more concerning if this were to become the responsibility of any other member of the fund. Whilst it was established that the Pension Regulator's remit excludes investment matters, it was questioned whether this might actually regard the solvency of the fund.

The Head of Pensions and Treasury highlighted that the Secretary of State provides guidance on reaching funding goals and that diversity in the fund provides a flattening effect and removes volatility.

It was acknowledged that the actuary had stated the contributions of one Scheme Emloyer will not affect those of the others. However, Members were struggling to understand how this part of the fund will be ring-fenced. Members were also of an opinion that there remained a conflict of interest with Members making specific reference to the role played by Eversheds.

RESOLVED: The Board noted the response made to the Director of Resources as detailed in the report. It was also agreed to take legal advice (possibly from the Monitoring Officer) on whether or not the Board had fulfilled its legal duty and seek further information on how the ring fencing of non-Council employers will work.

6/19 **Forward plan**

RESOLVED: The Board RESOLVED to review the policy documents as invited by the Pension Committee and detailed in paragraph 3.2 of the report. The only acceptance to this was the Discretions' Policy for the Council which the Board regarded as inappropriate to its remit.

7/19 **Scheme Advisory Board Horizon Scanning**

The Head of Pensions and Treasury highlighted that the actual costs of the LGPS scheme were under the value stipulated and therefore there was potential to augment the benefits of the scheme.

Discussion of the possible future impact of Brexit highlighted that this might make payments to overseas accounts more difficult. However, the Head of Pensions and Treasury noted that the scheme is prohibited from making payment to any overseas account.

8/19 **London CIV update**

The Head of Pensions and Treasury introduced the item highlighting that the Government was promoting more activity to go through the London CIV but that this was being jeopardised by the lack of a transition team. A concern was expressed that payments were being made into the London CIV's bank account but as the final destination for funds was different this was effectively co-mingling which should be considered bad practice. This was going to be raised by the Chair of the Pension Committee with the London CIV and escalate further if required.

9/19 **Training review**

The Members of the Board identified two training needs: 1) on the actuarial valuation and 2) long term developments. Where these were also a training need for the Members of the Pension Committee, it was agreed that training might be provided jointly.

10/19 **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 by the Chair and was agreed by the Committee to exclude the press and public for the remainder of the meeting.

11/19 **Minutes of the Previous Meeting (Part B)**

The minutes (Part B) of the previous meeting held on 15 November 2018 were accepted as a true and accurate record.

12/19 **Asset transfer (Part B)**

This item was discussed under item 6.

The meeting ended at 4.00 pm

Signed: ....

Date: ....

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Croydon Council

REPORT TO:	**Local Pension Board** **26 March 2019**
SUBJECT:	**Update on Developments in Respect of McCloud / Cost Cap**
LEAD OFFICER:	**Nigel Cook, Head of Pensions and Treasury**

1. RECOMMENDATIONS

1.1 To note the contents of this report and the approach adopted to reflect the costs in the next actuarial valuation.

2. EXECUTIVE SUMMARY

2.1 The report sets out the context for the 2014 public service pension reforms and the cost cap mechanism. It sets out how this mechanism may be brought into play and the implications of the McCloud case.

Background

3.1 Following the reports of the Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, the Government passed the Public Service Pensions Act 2013. This introduced a framework for new public service pension schemes, including one for local government that was introduced from April 2014. The new structure is designed to manage some of the costs and risks to the government of providing public service pensions. For example, providing benefits based on career average revalued earnings (CARE) rather than final salary removes much of the ‘salary risk’ and adjusting the normal pension age in line with longevity through linking it to the State Pension age removes much of the risk of future increases in longevity.

3.2 Unlike the other main public service schemes, the Local Government Pension Scheme (the LGPS) operates on a funded basis. Its rules are in regulations set at national level, but the scheme is made up of different funds, operated and governed at local level. Each fund is subject to periodic valuation (every four years now) to ensure it has sufficient assets to meet its liabilities and to set the employer contribution rate accordingly. These valuations are on the basis of assumptions set locally.

3.3 Each LGPS pension fund is required to appoint their own fund actuary, who carries out the fund's valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Liabilities are split between those that relate to the past (the past service cost), and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.

3.4 The portion of the total employer contribution which relates to the past service cost is known as the deficit contribution, and is often payable in cash terms. The portion of the total employer contribution which relates to the future service cost is known as the future service rate and is normally payable in percentage of pay terms.

3.5 There is an additional valuation conducted at national level, based on a model fund, for employer cost cap purposes.

Detail

3.6 Under the new cost management process, the costs of the LGPS will be reviewed every three years from 31st March 2016 to ensure that they remain in line with agreed targets. The process includes additional valuations that will be carried out at national level. The purpose, assumptions and output from these cost management valuations are all different from the local valuations carried out by LGPS funds. This cost management process can only lead to changes in benefit levels and/or employee contribution rates that will be made at national level.

3.7 Before the cost cap mechanism is tested, the LGPS Advisory Board (SAB) for England and Wales will run an additional cost control process with the aim of "providing greater control over the contribution rates actually paid by employers participating in the scheme." The agreed target future service rate for the LGPS in England and Wales is 19.5% of payroll.

3.8 In the national cost management process, the costs of the LGPS will be assessed in line with the agreed target future service rate for LGPS benefits, the 19.5% of payroll (made up of an average yield of 6.5% in employee contributions and an average yield of 13% in employer contributions). A 2% or more movement from the target in either direction must result in agreed recommendations for action to move back to the target or a default process to move back to the target will be triggered, and recommendations for action may be made following changes of less than 2%.

3.9 The cost management process will (when changes in cost become apparent) only lead to changes in benefit levels and/or employee contribution rates and these changes will apply to all employees in the LGPS. Any changes to benefit levels and/or employee contribution rates will be made at national level and so will impact on all participating employers.

The Latest Developments

3.10 In September 2018, the Government proposed bringing LGPS cost cap valuations onto the same quadrennial cycle as for the unfunded schemes. It said this would minimise complications and assist with comparison. On 10 October 2018, the SAB stated that the total cost of the LGPS was 19% and that it would look at ways to return costs to the target 19.5%.

3.11 The Board agreed to delegate to the Chair and a representative from both the employers and employees' sides, assisted by a small technical group, responsibility for agreeing a package of benefit changes to return the scheme to its total target cost of 19.5% while also looking at employee contributions at the lower end. The resultant package will be put to the full Board for agreement as soon as possible to ensure that scheme changes are on the statute book by April 2019.

3.12 However, on 8 February 2019, it announced that this work had been put on hold pending the outcome of legal proceedings in relation to the transitional protection arrangements for the 2015 schemes – the McCloud case. The case concerns the transitional protections given to scheme members, who in 2012 were within 10 years of their normal retirement age, in the judges and firefighters schemes as part of public service pensions reform. Tapered protections were provided for those 3-4 years younger. On 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.The Board's initial results showed that the protections in the new cost cap mechanism mean public sector workers will get improved pension benefits for employment over the period April 2019 to March 2023. This test, known as the cost control mechanism, was introduced to offer taxpayers and employees protection from unexpected changes in pension costs. Where the value of the pension scheme to employees has changed from the levels set when reformed pension schemes were introduced in 2015, steps must be taken to return costs to that level. A breach of the cost floor would require steps to be taken to return costs to their target level. Where agreement could not be reached on how to do this, the default would be an increase in the accrual rate.

3.13 On 30 January, the Chief Secretary to the Treasury, Elizabeth Truss, announced that this element of the valuations had been put on hold pending the outcome of a legal challenge to the transitional arrangements put in place when the 2015 schemes were introduced (the McCloud case). The Government has announced a pause to one element of the valuations of public service pensions, following a court ruling on part of the 2015 pension reforms. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the reforms amounts to unlawful discrimination. The Government is seeking permission to appeal this decision. If this is unsuccessful, the Court will require steps to be taken to compensate employees who were transferred to the new schemes.

3.14 On 7th February the SAB received confirmation that the cost cap pause and the uncertainty caused by the McCloud case applies equally to the LGPS as to the unfunded public service pension schemes. Given that confirmation the SAB considers it has no option but to pause its own cost management process pending the outcome of McCloud. As a result there are currently no changes to benefits planned in respect of the cost cap. This situation will be reviewed once McCloud is resolved which is not expected for some months.

3.15 With regards to the 2019 valuations the SAB is consulting LGPS administering authorities as to how to reflect these potential costs. They have proposed two options.

3.16 Option A is to receive guidance from the SAB designed to promote a consistency of approach on how McCloud and/or cost management should be taken account of as part of the 2019 triennial valuation exercise. Such guidance would take the form that:

I. If there is no finalised outcome on McCloud/Cost cap (including a commitment by government to detailed benefit changes) by 31st August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.

II. Each administering authority would then, with their Actuary, consider how they approach (and reflect in their FSS) the risk around this matter in the same way as they would for other financial, employer and demographic risks.

III. Once the outcome of McCloud is known and appropriate benefit changes are made administering authorities would, if they deem appropriate, re-visit employer contributions under such guidance or provision in regulation as may be available at that time.

IV. There is a consistent approach to delaying or method of estimating exit credits and payments

3.17 The alternate option is to have no central guidance and instead leave it to each administering authority to determine their own approach to their valuation (including any potential cost from McCloud or cost cap) taking advice from their actuarial adviser.

3.18 This authority has opted for A.

CONTACT OFFICER:

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

Croydon Council

REPORT TO:	**Local Pension Board** **26 March 2019**
SUBJECT:	**LGPS Governance Updates**
LEAD OFFICER:	**Nigel Cook, Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: **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.	
FINANCIAL SUMMARY: There are no direct financial consequences to these issues.	

1. RECOMMENDATIONS

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

2. EXECUTIVE SUMMARY

2.1 This report deals with various issues being considered by the LGPS Scheme Advisory Board, including the cost cap mechanism; the pensions regulator; and managing conflicts of interests effectively.

3 DETAIL

3.1 The LGPS Scheme Advisory Board (SAB) 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. The SAB provides a valuable source of information for all stakeholders.

3.2 The most significant issue that the Board is focussing its resources on relates to the cost cap mechanism and the McCloud case. This is detailed in another report on the Board agenda.

3.3 At its meeting of 10th January, 2019 this local Pension Board received a report describing how the Chair of the Scheme Advisory Board (SAB) had written to the Chief Executive at the Pensions Regulator, expressing concerns about the burdens being imposed by the Regulator on individual administering authorities.

Lesley Titcomb, Chief Executive at the Pensions Regulator, replied to the letter and her reply is appended to this report.

3.4 This response highlights the Public Service Pension Scheme (PSPS) Code of Practice 14 that confirms what is expected of all PSPS scheme managers in order to be compliant with the legislative requirements of the Public Service Pensions Act 2013 and related legislation. This is addressed by a report drafted by AON Hewitt also on this agenda. The letter considers options for enforcement action and implies that the LGPS could do better in meeting required legislative standards. The letter concludes by saying that the Regulator's office will continue to work with a cohort of LGPS schemes under their new approach to regulation.

3.5 Hymans Robertson have been appointed by the Board to conduct a survey on governance of the LGPS and potential conflicts of interest between the pensions function of administering authorities and their host local authority. The purpose of this exercise is to consider how best to accommodate LGPS functions within the democratically accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately and that the LGPS remains appropriately resourced and able to deliver its statutory functions. This project aims to identify the real issues and potential options for change to the current arrangements which are proportionate, pragmatic and would improve LGPS governance in these areas.

3.6 Through the consultation process, the Board will be seeking the views of as many stakeholders, representing all elements of the LGPS, as possible. Scheme stakeholders will be invited to complete a short online questionnaire which will ask for examples of actual conflicts that can arise, stakeholders views on the effectiveness of current LGPS governance arrangements and their suggestions for improvement. Further stages of the consultation will include interviews and workshops with key stakeholders. This will allow the SAB to consult on a series of options that reflect the reality of LGPS governance as experienced by those who experience it first-hand. This work will begin immediately, with reports coming to the SAB in April and July 2019.

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Letter from Lesley Titcomb, Chief Executive at the Pensions Regulator, in reply to the letter sent by Councillor Roger Phillips, Chair of the Scheme Advisory Board, about the burdens being imposed by the Regulator on individual administering authorities.

Cllr Roger Philips
Chair of the Board
LGPS Scheme Advisory Board
Local Government House
Smith Square
London SW1P 3HZ

The Pensions Regulator
Making workplace pensions work

Napier House
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Brighton
BN1 4DW

www.tpr.gov.uk
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19 December 2018

Dear Councillor Philips

Re: Local Government Pension Scheme: Scheme Advisory Board

Thank you for your letter of 28 November concerning improvements to the standards of governance and administration within the LGPS. I acknowledge the contribution of the Board in working alongside scheme stakeholders and our public service pensions team and it is vital that we continue working together to raise standards.

Our Public Service Pension Scheme (PSPS) Code of Practice 14 confirms what we expect of all PSPS scheme managers in order to be compliant with the legislative requirements of the Public Service Pensions Act 2013 and related legislation. Where non-compliance is identified, scheme managers should devise and implement robust and realistic improvement plans to address issues identified. Our published guidance and ongoing engagement helps us work with scheme managers to achieve compliance with the standards.

We focus on key indicators of good governance and administration when working with scheme managers in order to understand the action being taken to mitigate these risks and improve standards. These include:

- proper management of third parties
- adequate internal controls
- employer engagement and compliance
- pension board knowledge and understanding
- member communications.

To address your concern about enforcement action, first and foremost we support the implementation of suitable improvement plans by scheme managers in the first instance. Further action may follow if a scheme fails to deliver on those plans or if we find other material breach of the law. It is worth noting that in using our powers we would first establish where the fault lies behind a material breach of the law as this could be a scheme manager, but equally a participating employer or other third party.

In terms of the difficulties you highlight in scheme managers achieving the required legislative standards, our survey collates responses from the schemes themselves and tells us that some public service schemes, all of which have a CARE benefit structure, have demonstrated greater improvements in key areas when compared to the LGPS. For example, the proportion of LGPS members receiving annual benefit statements on time has not improved significantly between our last two annual surveys.

It is encouraging that you remain committed to working with us to deliver improvements in these crucial areas and are monitoring how standards are improving year on year. Seeking to implement a standard monthly data extract can only serve to improve the quality of data and record keeping as you rightly point out.

I have asked Nick Gannon (Policy Lead) and Pauline Lancum (Case Management Team Leader) arrange a meeting with the LGA to explore further ways we can collaborate to improve up governance and administration standards within the LGPS.

In 2018/19 we will continue to work with a cohort of LGPS schemes under our new approach to regulation. We will of course share the key findings from our work in due course. In the meantime the Governance and Administration survey for 2018 will offer further insights into the progress being made by the LGPS.

Yours sincerely

Lesley Titcomb

Lesley Titcomb
Chief Executive

Croydon Council

REPORT TO:	**Croydon Pension Board** **26 March 2019**
SUBJECT:	**Local Government Pension Scheme: Draft Statutory Guidance on Asset Pooling**
LEAD OFFICER:	**Nigel Cook, Head of Pensions and Treasury**

1. RECOMMENDATIONS

1.1 That the Board note the summary of the consultation which is set out in the text of this report.

1.2 That the Board offer any perspective on the issues raised that might add value to the corporate response.

2. EXECUTIVE SUMMARY

2.1 This report summarises the MHCLG consultation on the Draft Statutory Guidance on Asset Pooling and suggests a number of issues to be addressed in the Council's response.

3 DETAIL

3.1 The Ministry of Housing, Communities and Local Government issued, on 3rd January 2019, an informal consultation on the Draft Statutory Guidance on Asset Pooling. This consultation is open for 12 weeks and will close on 28th March 2019.

3.2 This report summarises the consultation, which is appended to this report as Appendix A. The consultation comprises 7 sections. This report discusses each section in turn. Unlike formal consultations there are no questions for consultees to respond to, hence this report will describe the key points from each section and suggest a response.

3.3 The guidance sets out the requirements on administering authorities in relation to pooling assets and replaces the section at pages 7 to 8 of Part 2 of Guidance for Preparing and Maintaining an Investment Strategy, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces Local Government Pension Scheme: Investment Reform Criteria and Guidance, issued in November 2015.

Definitions

3.4 The consultation specifies a set of definitions for use in the current and future versions of the guidance. These are common sense definitions.

Structure and scale

3.5 This section reiterates the aims of pooling, that all administering authorities must pool their assets and that pool members must appoint a pool company or companies to implement their investment strategies, stating clearly, “It is for the pool companies to decide which investment managers to use for pool vehicles”. It also states that a pool company must be a company regulated by the FCA.

3.6 It is stated that Pool governance bodies, working with the Pool Company, “should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency” and “the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period”.

Governance

3.7 The Consultation states that pool governance bodies must be established in order to “set the direction of the pool and hold the pool company to account” while pool members through their own governance arrangements will be “responsible for effective governance and for holding pool companies and other service providers to account”. In addition “Strategic asset allocation remains the responsibility of pool members”. It also states Pension Committees should take a long term view of the potential benefits of pooling, taking into account “the benefits across the pool and across the scheme as a whole…and should not seek simply to minimise costs in the short term.” It also notes that Pension Boards can have a role in governance arrangements.

3.8 It also states that part of pool governance bodies’ role is to decide the pool’s policy on which aspects of asset allocation are “strategic” and which are “tactical”, with the guidance stating that, “governance bodies should be mindful of the trade-off between greater choice and lower costs”. It is also noted that the position between what is deemed strategic and what is tactical is something that might change over time. It is also states that, “Pool members should set out in their FSS and ISS how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review”.

Transition of Assets to the Pool

3.9 There are a number of comments on treatment of costs, including:

“Transition of listed assets should take place over a relatively short period.” and “...should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.” And “Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government’s view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.”

3.10 It is noted that “In exceptional cases, some existing investments may be retained by pool members on a temporary basis" citing assets that need to be held to maturity as an example. It also notes that "Pool members may also retain existing direct property assets where these may be more effectively managed by pool members" and "…pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments."

3.11 For assets held outside the pool it is stated that, "Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool."

Making New Investments Outside The Pool

3.12 There is an expectation that new investments will be made through the pool company with 2020 being set as the target timescale and a statement that "pool members should make new investments outside the pool only in very limited circumstances."

3.13 Exceptions (to pool members investing in their own pool) include, "A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member", with clarity that Local assets should, "not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment and be subject to a similar assessment of risk, return and fit with investment strategy as any other investment."; or "may invest ….in a pool other than their own where collaboration across pools or specialism by pools can deliver improved net of fee returns".

Infrastructure Investment

3.14 There are a number of infrastructure related aspects noted in the document. Although supportive of the asset class, the consultation states, "There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area." "Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size".

3.15 It is explicitly stated that Pools are expected to provide a range of options to accessing the asset class and may offer brown and greenfield exposure to the asset class. There is also comment that, "Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment". The consultation states for the purpose of annual accounts CIFPA's definition for the asset class should be used (which includes a comment that conventional property is not normally included). The consultation also makes it clear that residential property is defined as infrastructure.

Reporting

3.16 There are a number of cost and pooling related requirements, including stating that, "Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance: Preparing the Annual Report, with effect from the 2018-19 report."

3.17 The CIPFA guidance is also to be used when it comes to defining which assets are to be deemed pool assets, "'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 (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control." Pool members should "provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets."

3.18 It is stated that the Scheme Advisory Board (SAB) will publish an annual report on the pools based on data from the pool member annual reports. It is also stated that pool companies should report in line with the SAB Code of Cost Transparency, with pool companies requiring their internal and external investment managers to do likewise. The final point on the consultation is to state that "Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG."

Croydon Response

3.19 The recommendation of this report is that a response is drafted to reflect the views of the Committee members and dispatched in the name of the Chief Finance Officer in consultation with the Committee Chair and the Cabinet member for Finance and Resources. The following section suggests areas that should be addressed by this response.

3.20 There is an underlying assumption that investments made through the Pooling Company will 'maximise the benefits of scale'; this, it is evident from the language in the consultation, is synonymous with value for money. However, there is no evidence to support this argument, indeed it is a fundamental principal within the investment universe that no investment fund can maintain a predominant position, compared with their peer group, over any period of time. In adopting this approach the significant due diligence that backs up each investment decision – whether undertaken by investment advisors, specialized consultants, or individual authorities – is given less weight than it should. The consultation puts an onus on the authority to 'undertake regular reviews of retained assets and the rationale for keeping these outside the pool.' This should also apply for assets held by the pool. This consultation, contentiously, revisits the debate about active and passive management: this has no place in this consultation process. The same could be said for the comments around greenfield and brownfield infrastructure projects.

3.21 On the broad issue of cost control and transparency the inclusion of the assumption of use of the National LGPS Framework is welcome.

3.22 Under the proposed reporting arrangements the Pension Fund's investments with LGIM would not count as being pooled. This contradicts the previous reporting arrangements. Further, reporting in line with the Code of Transparency will be challenging as, at present, private market funds fall out of scope. For Croydon this is 25% of the portfolio.

3.23 The section on making new investments outside of the pool has particular relevance here. Following the formulation of a revised investment strategy the Pensions Committee:

- Will only be able to ‘make new investments outside the pool only in very limited circumstances;
- Invest in local initiatives only up to an aggregate 5% of the value of the Pension Fund; and
- Be required to consult with the London CIV on any investments outside of the pool.

This raises certain issues around the sovereignty of local decision making bodies.

3.24 A radical departure from the line of development to date is that ‘pool members may invest through pool vehicles in a pool other than their own.’

3.25 Finally, it should be noted that the consultation is silent on ESG issues.

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

Appendices

Appendix A: Statutory Guidance on Asset Pooling in the Local Government Pension Scheme.

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Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company
'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
'Retained asset' an existing investment retained by a pool member during the transition period
'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:
- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:
- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management

3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

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;*
- *Returns to show limited correlation to other asset classes.*

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.

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.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

For the purpose of defining those assets which are classed as being within an asset pool, '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 (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

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Croydon Council

REPORT TO:	**Croydon Pension Board** **26 March 2019**
SUBJECT:	**Review of the Risk Register**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

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 for the Pension Committee 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 Pensions Board with a report 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 The risk register will be reviewed periodically and brought initially to the Pension Committee then back to the Board for its consideration twice each annual cycle of meetings – the register was most recently reviewed in March 2019. The Board will be aware that, following best practice the Council maintains a corporate risk register: this Pension Fund risk register is distinct from that document and an innovation in that previously neither the Committee nor the Board has had the opportunity to formally track risks relating to the Fund and Scheme in such a comprehensive manner.

3.4 The previously reported risk relating to the Markets in Financial Instruments Directive (MiFID II) exercise has been resolved and thus taken off this register. The risks relating to the London CIV are better understood and thus less likely than previously reported. Specific risks relating to the Pension Fund investment portfolio are addressed within the Progress Report which features on the Committee's agenda.

3.5 The register shows that there are 11 significant risks for the Scheme (i.e. scored 12 or higher). The register is appended to this report.

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Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

Appendices

Appendix A: Risk Register

	Risk	Assigned to	Existing Controls	Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
	Governance Risks									
1	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 returns 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
2	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
3	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									
4	The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years. 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. However this needs to be done efficiently and in a cost effective manner.	4	2	8
5	Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager	The Fund's contribution income is currently not quite 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 means that in the latter part of the valuation cycle cash is short. In the short run the cash flow solution is to disinvest from overweight equity positions.	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

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
7	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.	Head of Pensions and Treasury	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									
8	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.	Pension Fund Investment Manager	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. An asset allocation review is underway and this will inform future investment decisions.	4	4	16	A new asset allocation will be agreed in 2019.	5	2	10

9	The London CIV is experiencing a pro-longed period of turmoil around staffing. The third Chief Executive has now been appointed, a number of more junior roles are still vacant and the CIO position is vacant. This situation would be considered a matter for grave concern for a fund manager. The risk is that, without appropriate leadership, the CIV will fail to deliver adequate returns and cost savings.	Head of Pensions and Treasury	The new Chief Executive has extensive local government experience and should provide a stabilising influence. The continued lack of a CIO is a serious deficiency. The CIV's CEO has stated: 'Although we will move the CIO recruitment process forward at a sensible pace, it may be some months before a suitable candidate is able to join us. We therefore also aim to appoint an interim CIO to add capacity to the investment team in the short-term and support the existing heavy workload on fund launches, etc. '	4	3	12	Filling these vacancies with good candidates should significantly reduce the risk of failing to meet stakeholders expectations.	4	2	8
10	The London CIV does not have a transition team. Moreover it does not appear to have permission from the FCA to perform standard transition activities. This leaves investors exposed to significant risks when transferring assets into, from or within the CIV.	Head of Pensions and Treasury	Croydon Council retain the services of an external consultant to assess the efficacy of transitions. This is a backward looking review and the Council does not have visibility of the process when the transition is happening or when the Fund is out of the market.	4	3	12	In the future the CIV should build a proper transition team. The CIV recognise this issue and are building capacity.	3	2	6
11	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.	Pension Fund Investment Manager	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 31/12/2018. Next review 31/12/19.	4	3	12
12	There is a risk that a 'Hard Brexit' will result in disruption to the way that fund managers can operate and this will have a deleterous impact on the Fund.	Head of Pensions and Treasury.	The government has rolled out a temporary permissions regime and EU27 governments are intoducing mirror regimes. So far Holland, France, Italy, Germany, Finland and Luxembourg have intoduced regulations to allow existing arrangements to continue. However, a long-term solution to passporting has not been agreed.	3	4	12	There will be unresolved problems for a number of years due to the scale and complexity of this issue.	3	3	9

13	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.	Pension Fund Investment Manager	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									
14	Cyber risk: the risk of loss, disruption or damage to the scheme or its members as a result of the failure of IT systems and processes.	Pensions administration manager	IT infrastructure and security should be sufficient for the work undertaken. There should be multiple layers of security put around systems in line with the Information Commissioner's Office's guidance. Physical and virtual access to systems and data should be controlled. Critical systems and data should be regularly backed up. 13. There should be a range of policies and processes in place around: acceptable use of devices; passwords; home and mobile working; and data access and protection. Training should be appropriate. Systems and networks should be monitored.	3	3	9	It seems likely, even with these controls in place, that some sort of attack will take place, impacting on the scheme, the fund, a counter-party or another scheme employer.	3	4	12

Key

Below 10 is considered a Green Risk.
A score between 10 and 19 is an Amber Risk.
A score of 20 or above is a Red Risk.

Croydon Council

REPORT TO:	**Croydon Pension Board** **26 March 2019**
SUBJECT:	**Pension Fund Currency Hedging**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. RECOMMENDATIONS

1.1 To note the report on currency hedging commissioned from Mercer.
1.2 To note the decision of the Pension Committee which was to delegate the decision to implement a currency hedge to the Chief Finance Officer, in consultation with the Pension Committee Chair and Cabinet Member for Finance and Resources.

2. EXECUTIVE SUMMARY

2.1 This report sets out the case for implementing a currency hedge for the equity investment part of the portfolio, referencing the costs and advantages set out in Mercer's paper, which is appended.

3 DETAIL

3.1 Heightened volatility in currency exchange rates has a direct impact on the Pension Fund. This volatility can be managed by employing various hedging techniques. However, these techniques can be expensive, and movements in exchange rates can be beneficial as well as damaging to the Fund. Past Pension Committees have discussed the merits and demerits of actively managing this issue on a number of previous occasions but have never executed a currency hedging strategy.

3.2 Following on from the most recent discussion of this issue by the Committee on 4th December Mercer were asked to review the Pension Fund's currency exposure and suggest options to manage the risk that goes with that exposure. That report is included here as Appendix A and was considered by the Pension Committee at its meeting of 12 March 2019.

3.3 The LGIM Developed World ex-Tobacco Fund fits the criteria set out in the Mercer report for implementing a currency hedge. There are technical reasons, described in the Mercer report, for not hedging other components of the portfolio, and cost issues.

3.4 The liabilities of the Croydon pension scheme are denominated in sterling, with the result that any exposure to foreign currency through the asset portfolio can lead to an increase in volatility with little or no additional expected excess return.

However, there are valid reasons to have exposure to assets priced in foreign currencies, including:

- A further investment opportunity above and beyond that offered by the asset class;
- Hedging currency exposures in and of itself can be expensive;
- Exposure to “reserve currencies” (e.g. USD, EUR, CHF and JPY) can act as a tail risk hedge; and
- Exposure to reserve currencies can act as a second order liability hedge as a fall in UK interest rates (increasing the value of the liabilities) will likely coincide with a fall in the value of sterling and a relative gain on assets exposed to foreign currencies.

3.5 Since 2016 and the outcome of the Referendum on leaving the EU, sterling has devalued so that UK investors with un-hedged overseas currency exposure have seen material gains from their position. This scenario is likely to continue for some time, dependent on the outcome of the immediate process on March.

3.6 Mercer’s review notes that a satisfactory conclusion to the negotiations would result in these currency gains unwinding. Conversely, continued uncertainty would likely result in a weak sterling for a longer period. Thus the review suggests that the Committee might want to consider locking in some of these gains. Three options are set out, hedging all, none, or half of the exposure.

3.7 There are broadly two options available to the Committee if they want to crystallise some of the recent gains and reduce the Fund’s foreign currency exposure: either to introduce a currency hedging manager to implement an overlay strategy or ask the Fund’s existing managers to hedge their foreign currency exposures. Both options give rise to costs.

3.8 The Pension Committee decided on option B – ‘Ask the Fund’s existing managers to hedge their foreign currency exposures’. In effect this means LGIM and initial discussions have paved the way to enabling this. The next step therefore is to put a proposal to the Chief Finance Officer for her consideration and to allow her to consult with the Pension Committee Chair and Cabinet Member for Finance and Resources. The proposal will set out the costs involved, which will comprise a set-up charge and annual fee, and a recommendation as to what proportion of the equity portfolio should be hedged, including what currencies should be hedged.

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

Appendices

PEN 26032019

Appendix A: London Borough of Croydon Pension Fund Currency Hedging, Mercer February 2019

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LONDON BOROUGH OF CROYDON PENSION FUND

CURRENCY HEDGING

Introduction

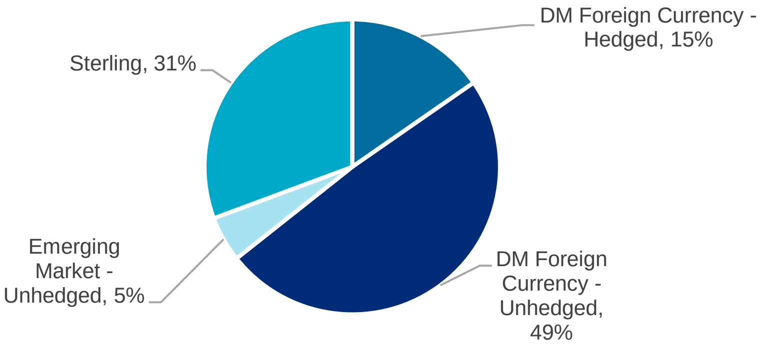
This note has been written for the Pensions Committee ("Committee") of the London Borough of Croydon Pension Fund ("the Fund"). Its purpose is to review the foreign currency exposure of the Fund's investment portfolio and to consider options available to manage the foreign currency risk.

We raised the concept of currency hedging to the Committee on 6 November 2018 as part of a wider risk management session. At that meeting the Committee agreed in principle to reduce the amount of currency risk in the Fund. The purpose of this paper is set out the options to implement that decision. This paper should be considered in conjunction with our paper entitled *"Scenario Analysis"* (dated October 2018) and the formal minutes of the 6 November 2018 meeting as they contain pertinant background to this paper.

Background

The Fund has overseas investments that are non-sterling denominated. The chart below shows the Fund's overall asset portfolio split between exposure to sterling denominated assets and assets priced in foreign currencies (based on the strategic benchmark allocation).

Figure 1: Fund's strategic currency exposure



Source: Mercer based on Stategic Asset Allocation as at 31 December 2018

The foreign currency exposure is split as follows:

- **Developed market exposure - hedged (15%)**
  - Aberdeen Standard Investment Absolute Return Bond Fund – 7.7%
  - Pimco Global Corporate Bond fund (via LCIV) – 7.7%
- **Developed market exposure - unhedged (49%)**
  - LGIM Developed World ex-Tobacco Fund – 37%
  - Infrastructure – 4%
  - Private Equity – 8%
- **Emerging market – unhedged (5%)**
  - Janus Henderson Emerging Market Equity ('EME') (via LCIV) – 5%

In terms of the current hedging policy inferred by the allocations above we would make the following comments:

- **Bonds –** given the bonds are used for risk management and cashflow purposes versus a set of sterling liabilities we are comfortable with the position to currency hedge these assets.
- **Private market assets (infrastructure and private equity) –** we would not recommend currency hedging these assets as stale pricing of the underlying exposures can lead to more risk. In addition, the relatively unknown frequency of investments and redemption payments create complications for managing the level of hedged exposure. We would note the this may need to be reviewed if/when the Fund relies heavily on the income from these assets for cashflow purposes, however given the Fund is in a reasonable cashflow position and has other sterling denominated cashflow generating assets (particularly property and PRS) we would recommend leaving the 12% private markets (the other 6% allocation to infrastructure is sterling) exposure as un-hedged.
- **Emerging Market Equity** - hedging emerging markets exposure can be costly, the exposure can also be considered as a rewarded risk i.e. economic growth above that of developed markets should lead to appreciation of emerging market currencies relative to developed markets over time and hence the exposure should benefit the Fund (noting that there will be a significant amount of volatility carried and return cannot be guaranteed). Therefore, we would not recommend looking to hedge this exposure at the present time.

As such, the remainder of this paper considers the proportion of the Fund's allocation to the LGIM Developed World ex-Tobacco Fund to hedge and the mechanism to implement this.

What is currency risk?

Developed market currency (typically US Dollar, Euro, Japanese Yen) exposure is generally considered an unrewarded risk (or at least poorly rewarded). That is, unlike equity risk for example, there is no expected long term return that comes with the risk (or the level of excess return is not commensurate with the volatility that results).

As a UK based pension scheme with 100% sterling denominated liabilities, being exposed to foreign currency through the asset portfolio leads to increase in expected volatility with little or no additional expected excess return. That said, there are valid reasons to have exposure to assets priced in foreign currencies. Examples of these reasons are:

– It allows the Committee to widen the opportunity set to enable the Fund to meet its objectives.

– Hedging currency exposures can be expensive (particularly in emerging markets) thus negating some of the additional gains from accessing these markets.

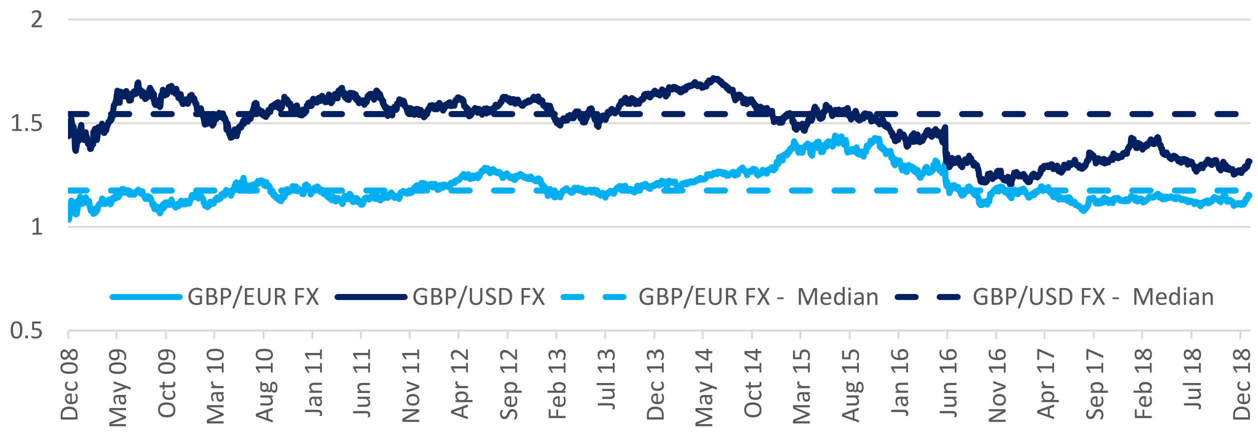
– Exposure to “reserve currencies” (e.g. USD, EUR, CHF and JPY) can act as a tail risk hedge as market stress events tend to result in a ‘flight to safety’ and an appreciation of these reserve currencies versus sterling.

– Exposure to reserve currencies can act as a second order liability hedge as a fall in UK interest rates (increasing the value of the liabilities) will likely coincide with a fall in the value of sterling and a relative gain on assets exposed to foreign currencies.

Market background and tactical considerations

The chart below shows how the sterling exchange rate versus the US dollar and Euro has moved over the last 10 years. Over the period (and particularly as a result of the 2016 EU referendum vote) we have seen a decline in the value of sterling to a point now where current pricing is below the 10-year average. We would however note that particularly versus the Euro rate, sterling has been relatively stable (albeit weak) since 2016.

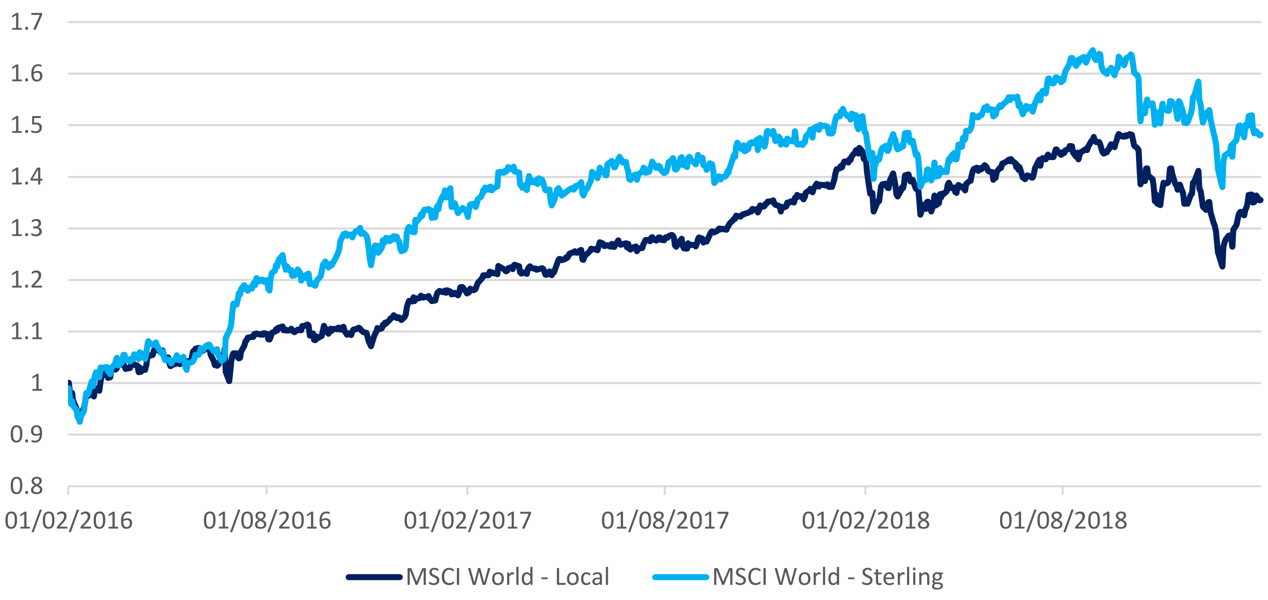
Figure 2: Exchange Rates – USD & EUR vs GBP over 10 years



Source: DataStream, Mercer

The result of this sterling weakness has been that UK investors with un-hedged overseas currency exposure have seen material gains from the position. If we consider the chart below the difference in performance between MSCI world index in local currency (hedged) and sterling (unhedged) terms has been c.3.3% p.a. over the last three years which equates to a gain of c.£40m per £400m (the Fund’s approximate holding in the LGIM fund at 30 September 2018).

Figure 3: MSCI World Local Vs Sterling 31 January 2016 – 31 January 2019



Source: DataStream, Mercer

We don't have a strong view as to whether sterling is over- or under-priced versus the major developed market currencies at the current time. However, we would expect the uncertainty around sterling to remain, particularly while the UK's future relationship with the EU is still so uncertain.

We have worked on the basis that the Committee does not want to explore an active currency management strategy i.e. to appoint a manager who will aim to garner additional returns through taking views on currency movements. That said there is an opportunity to be tactical in setting the 'hedge ratio' of the Fund's foreign currency exposure.

Based on our scenarios (see our previous paper) we would assign a higher probability to the Brexit scenarios (e.g. negotiated deal) which lead to an appreciation in sterling and for some (or all) of the recent gains set out above to be unwound.

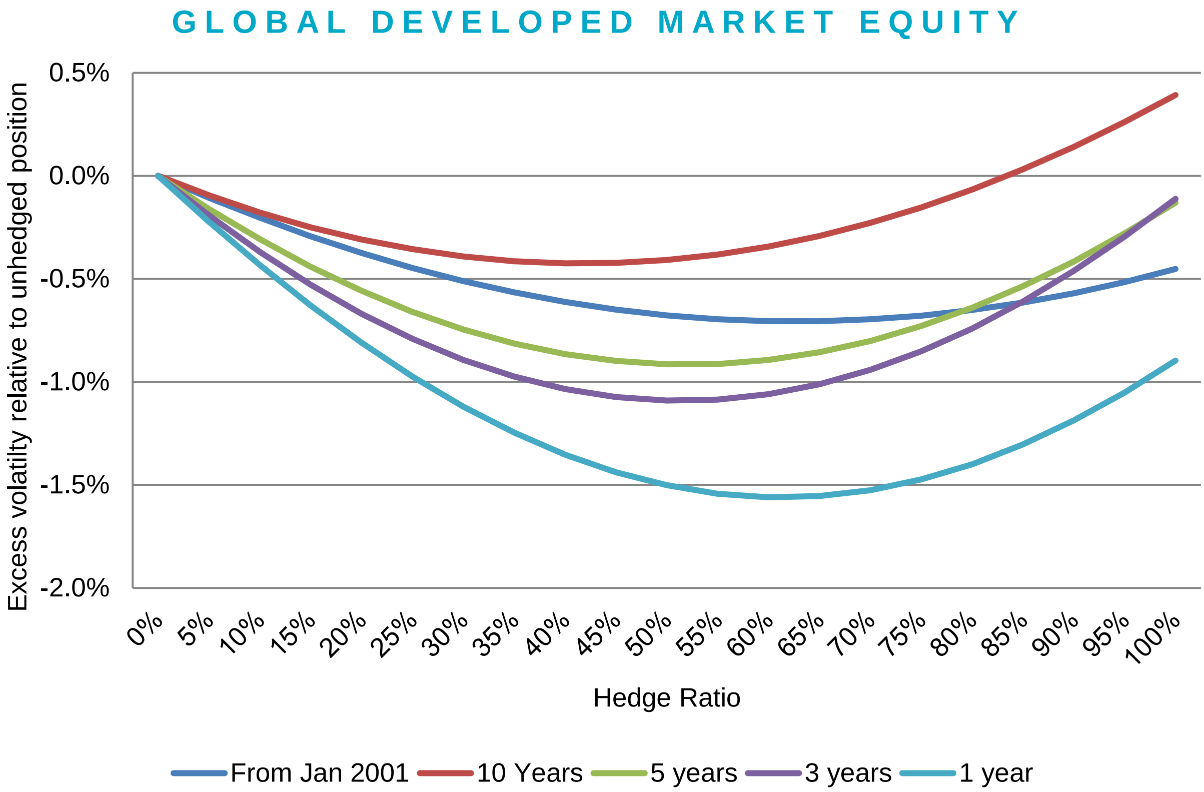
That said we are cognisant that there is a real risk that sterling could weaken further in which case the current un-hedged position would be more favourable.

Therefore, from a current tactical point of view there is an argument to remove some foreign currency risk to 'lock-in' a portion of the recent gains made from the weakness in sterling whilst retaining scope to benefit to some degree from any further decline in sterling.

How much currency hedging is optimal from a strategic perspective?

Figure 4 overleaf shows (based on historic data) the relative risk experience of different currency hedged positions (versus being unhedged) over a number of time period.

Figure 4: Impact on volatility and returns



Source: Thomson Reuters and Mercer

The 'smile' shape of the charts indicates holding less than 100% of foreign currency exposure has historically achieved a greater level of volatility reduction than either being 100% hedged or completely unhedged. Over most time periods, the greatest level of risk ***(as defined by volatility) reduction is achieved by hedging c.50% - 70% of currency risk.***

There is a spectrum of options available to Committee if they want to crystallise some of the recent currency gains and reduce the Fund's foreign currency exposure. However, we show 3 for illustrative purposes in the following table:

LEVEL OF HEDGING	PROS	CONS
0% **(Current)**	• Adds value when sterling **depreciates** (overseas assets are worth more in sterling terms). • No additional cost of hedging	• Loses value when sterling **appreciates** (overseas assets are worth less in sterling terms) • Greater level of expected volatility of returns

LEVEL OF HEDGING	PROS	CONS
50%	• Removes volatility of exchange rates (to the extent hedged) • Locks in recent gains from sterling depreciation (to the extent hedged) - sterling is well below long term averages against other major currencies • Gives access to some upside from further sterling weakness	• Additional costs – hedged funds tend to be slightly more expensive. • When sterling **depreciates** overseas assets are worth more sterling terms. The Fund will not benefit from these gains (to the extent hedged).
100%	• Removes risk of losses when sterling **appreciates** - sterling is well below long term averages against other major currencies	• Opportunity cost - should sterling **depreciate** further), the Fund would not participate in these returns. • Additional costs and fees for greater levels of hedging • Lower level of expected volatility reduction at 100% hedging.

Options to hedge currency risk

There are broadly two options available to the Committee if they want to crystallise some of the recent gains and reduce the Fund's foreign currency exposure:

A. Introduce a currency hedging manager to implement an overlay strategy

B. Ask the Fund's existing managers to hedge their foreign currency exposures

Option A. is a relatively expensive and time consuming (including ongoing governance and lead time to set-up) route to take. As such, we would only advocate this route as part of a deep dive currency hedging review and/or a wider risk management strategy project (including strategies such as LDI and equity protection). We can look into these options with Committee as part of the upcoming investment strategy review.

Option B. is a quicker, cheaper and more pragmatic solution.

To that end we have been discussing the options to currency hedge the LGIM exposure with the manager. LGIM have confirmed they are able to set up a currency hedged version of the FTSE World Developed Ex Tobacco fund and based on our request have initiated the process so that the currency hedged fund is available for the Fund to invest in should the Committee agree to proceed.

There would be a number of costs associated with switching into the hedged version of the fund, as follows:

- **One off cost** - LGIM have confirmed that **transaction costs** for switching assets from the existing unhedged fund to the currency hedged fund are expected to be c.0.026% of assets transferred. This equates to c.£54,000 for a 50% currency hedged solution and c.£109,000 if all assets were switched to the currency hedged fund.

- **Ongoing costs** - LGIM charge an additional 0.025% p.a. **management fee** on assets invested in the currency hedged fund (equal to c.£52,000 p.a. for a 50% hedge or £104,000 p.a. for a 100% hedge).

  In order to roll the hedges each month there is an additional on-fund cost passed through the fund. This may vary depending on the size of the fund and the market environment. The approximate cost of the on-fund cost is 3bps p.a. this equates to c£63,000 p.a. for 50% hedge or c.£125,000p.a. for a 100% hedge.

- There may also be additional transaction costs of rebalancing between the currency hedged and non-currency hedged funds so as to maintain the target currency hedge ratio. However, these can be mitigated to an extent by not having tight rebalancing ranges in place.

We feel these costs are appropriate in an absolute sense and relative to the gains that have been made from running an un-hedged position.

Summary and next steps

In our view as a cost-effective, pragmatic approach to reduce risk and lock in gains coming from sterling depreciation over recent years we suggest switching between 50-70% of the assets held within the existing LGIM FTSE World Developed Ex Tobacco Equity fund to the currency hedged version at the earliest available opportunity.

The 50-70% range is supported by the strategic argument set-out previously, where the Committee lands within this range will depend on the appetite for future risk versus the certainty of locking in the gains that have been made thus far.

If the Committee want to lock-in more gains and/or envisage an appreciation of sterling, then a 70% hedge position on the LGIM exposure would be more appropriate. However, if the Committee are concerned about the regret risk of losing out on gains from further sterling weakness (but still want reduce the amount of risk) then they may wish to consider a 50% position.

Depending on how you agree to proceed, we will liaise with LGIM to confirm the Committee’s decision and the expected value of assets to be transferred and to request LGIM provide the documentation required to implement the switch.

I look forward to discussing this paper with the Committee.

Peter Gent FIA

Mercer Ltd

February 2019

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Croydon Council

REPORT TO:	**Local Pension Board 26 March 2019**
SUBJECT:	**Forward Plan, 2019 / 2020**
LEAD OFFICER:	**Nigel Cook, Head of Pensions and Treasury**

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 work plan 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. Each meeting will also be able to review the papers presented to the Pension Committee, which typically will meet a month before.

11th July 2019
ESG issues

Administration Key Performance Indicators
Annual Report, Statement of Accounts and Audit of the Croydon Pension Fund
Asset Allocation Review
Training records update
Scheme Advisory Board Annual Report
Issues raised by the Scheme Advisory Board

17th October 2019
Revised Investment Strategy Statement
Pension Board Annual Review
Risk Register Review
Forward Plan review
Cost Transparency
Issues raised by the Scheme Advisory Board
Review Funding Strategy Statement

16th January 2020
Administration Key Performance Indicators
Issues raised by the Scheme Advisory Board
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.

2nd April 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.

CONTACT OFFICER:

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

Croydon Council

REPORT TO:	**Local Pension Board 26 March 2018**
SUBJECT:	**Brexit Risk Scenarios**
LEAD OFFICER:	**Nigel Cook, Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall Cabinet Member for Finance and Treasury**

1 RECOMMENDATIONS

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

2 EXECUTIVE SUMMARY

2.1 The report sketches, in broad terms, risk scenarios around the UK leaving the European Union at the end of March or some other time. The report invites the Board to consider mitigations for the impact of these scenarios.

3 DETAIL

3.1 At the time of writing this report the Prime Minister's so-called Chequer's deal on the UK leaving the European Union has been voted down by Parliament twice. The European Union will next meet at a summit called to discuss relationships with China. This summit represents the next opportunity for the UK Government to influence this process. The options open to the UK seem to include: a third meaningful vote on the Prime Minister's deal, (including the backstop agreement); to return to the EU to attempt to persuade the other 27 states to revisit and ultimately re-open the negotiated agreement; or to ask for an extension, either short, up to the May EU elections, or longer, perhaps two years. None of these options will resolve the uncertainty generated by the exit event. This report attempts to set out the key areas of risk, the impact of those risks, and the potential mitigations available.

3.2 The current regulatory environment, as it applies to financial services, has been largely developed by the UK and enacted by EU Directives. Interim arrangements will see these arrangements persist but, as capital outflows from many significant banking entities show, the City of London's pre-eminent position is under threat, from Dublin, Paris and Frankfurt. The likeliest impact for the Pension Fund would be on the resources required to ensure compliance with the regulatory framework and associated costs. As an illustration, the work involved in ensuring the Council was compliant with the MiFID framework took several months and involved around 30 counter-parties to the Council. In the longer term the likely impact on the Pension Fund would be an increase in the marginal costs of maintaining investments and possible a dampening of returns.

3.3 The current global macro-economic picture hasn't been impacted by the Brexit negotiations directly but indirectly there is a significant risk that, outside of the EU, the UK's position on the global stage would be weakened. Those global headwinds would include the US / China trade wars and the impact on those country's respective economic growth; unresolved problems within the Eurozone; unwinding quantitative easing; and the continuing impact of the Global Economic Crisis. These risks are mitigated by the strong global diversification of the Pension Fund's investments.

3.4 Much emphasis has been put on fees and charges levied on the Local Government Pension Scheme. At present there are arrangements that effectively limit the impact of these on performance and many of these facilities will persist, such as collective negotiating, but without any perspective on future arrangements, after any transitional arrangements have fallen away, Funds must assume there is a risk that returns will suffer as fees and charges are deducted from gross returns. Steps to ensure more transparent reporting will help to control fees and charges but this may prove to be a drag on performance.

3.5 At present Pension Funds have unfettered access to opportunities across the globe in most asset classes. Many of the Funds in which the Pension Scheme is invested are European – Private Equity and Infrastructure, for example – and several are denominated in Euros. Whether the Scheme will enjoy the same range of options in the future is open to question. Of course it is entirely possible that returns in line with the Council's long-run expectations will continue to be achievable but this risk should be noted. The question of where Funds are domiciled will possibly continue to be significant. In terms of mitigation, other Pension Schemes illustrate that it is possible to generate adequate returns investing in a focused range of investments but experience suggests that moving investments during a period of uncertainty and hence volatility can be costly.

3.6 The Scheme will want to take account of the potential impact on Scheme members and in particular those drawing benefits. The key factors are interest rates, inflation and currency exchange rates. These are inter-related and will have positive and negative impacts that are difficult to forecast. The design of the Pension Fund should mitigate against the most extreme impact. For example, high levels of inflation will be reflected in indexation of benefits but will probably result in depressed interest rates, which will impact on the fixed interest part of the portfolio and also exchange rates which impacts on the equity portfolio. Members who have retired to live overseas, for instance in Ireland, Spain or Portugal will be particularly exposed.

3.7 Finally, there is a significant risk of something else happening that risk models did not foresee. By its nature such an event will be difficult to predict, describe and evaluate. Nevertheless, the frequency that such events occur (often described as Black Swan events) suggests that it would be unwise not to expect something. Clearly it would be difficult to prepare for such an unpredictable event but managing the Fund in line with industry best practices will help.

3.8 Those mitigations available to the Pension Fund are already largely in place: diversifying investments by region, sector and scope; careful choice of fund managers; and close monitoring of performance. The Fund has set itself achievable return goals over a reasonable period of time. Officers are actively engaged in understanding these scenarios and working with advisors with experience of previous difficult investment challenges. The Fund is a long-term investor and the ability to ride out these temporary difficulties should not be under-stated.

3.9 The Board is invited to consider these, and other, scenarios and to discuss whether there are options available to the Pension Scheme that would better address these issues.

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** **26 March 2018**
SUBJECT:	**External Audit Plan for the year ending 31 March 2019**
LEAD OFFICER:	**Nigel Cook, Head of Pensions and Treasury**

1 RECOMMENDATIONS

1.1 The Board is asked to note the audit plan appended to this report.

2 EXECUTIVE SUMMARY

2.1 This report introduces the External Audit Plan for the year ending 31 March 2019.

3 DETAIL

3.1 Grant Thornton, the Pension Fund's external auditor, publish an audit plan. This document provides an overview of the planned scope and timing of the statutory audit of the Pension Fund ('the Fund') for those charged with responsibility for governance, who, in this regard, are the General Purposes and Audit Committee.

3.2 This plan is appended to this report. The Board is invited to note the contents of the plan.

CONTACT OFFICER:

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

Appendices

Appendix A: External Audit Plan for the year ending 31 March 2019, Grant Thornton, March 2019.

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Grant Thornton

External Audit Plan

Year ending 31 March 2019

London Borough of Croydon Pension Fund

12 March 2019

Contents

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the London Borough of Croydon Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the London Borough of Croydon Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the General Purposes and Audit Committee).

The audit of the financial statements does not relieve management or the General Purposes and Audit Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

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Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Fraud in revenue recognition – this risk has been rebutted for the Fund as documented on page 5 • Management over-ride of controls • The valuation of Level 3 Investments is incorrect We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £11.394m (PY £11.314m) for the Fund, which equates to 1% of your net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £569k (PY £566k).
Audit logistics	Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £16,170 (PY: £21,000) for the Fund, subject to management meeting our requirements set out on page 9. Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated of Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its "interim solution" for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

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Changes to the 2018-19 CIPFA Code of Practice

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

The Pensions Regulator (tPR)

tPRs Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

Potential Implications of Brexit

As it currently stands, the UK is due to leave the European Union on the 29th of March 2019, and there is significant uncertainty of the impact of this on a number of assets of everyday life.

Brexit may well have an impact on the valuation of the Pension Fund Assets at the 31st of March 2019, depending on whether any deal is agreed and what that deal will look like. This may also have other impacts for the Pension Fund, including the Actuarial Assumptions considered as part of the IAS19 and IAS26 Exercises.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.

- We will consider the potential impact of Brexit on the valuation of the Fund's Assets, and obtain sufficient assurance over the valuations included within the Accounts at year end to ensure any impact from Brexit is correctly reflected.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the London Borough of Croydon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the London Borough of Croydon Pension Fund.	
Management over-ride of controls	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£266 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • gain an understanding of the Pension Fund's process for valuing Level 3 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • undertake consideration of the competence, expertise and objectivity of any management experts used; • review the qualifications of the expert used to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; and • test the valuations by obtaining and reviewing audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date then rationalising those values to the values at 31 March 2019 with reference to known movements in the intervening period.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by the London Borough of Croydon (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

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Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

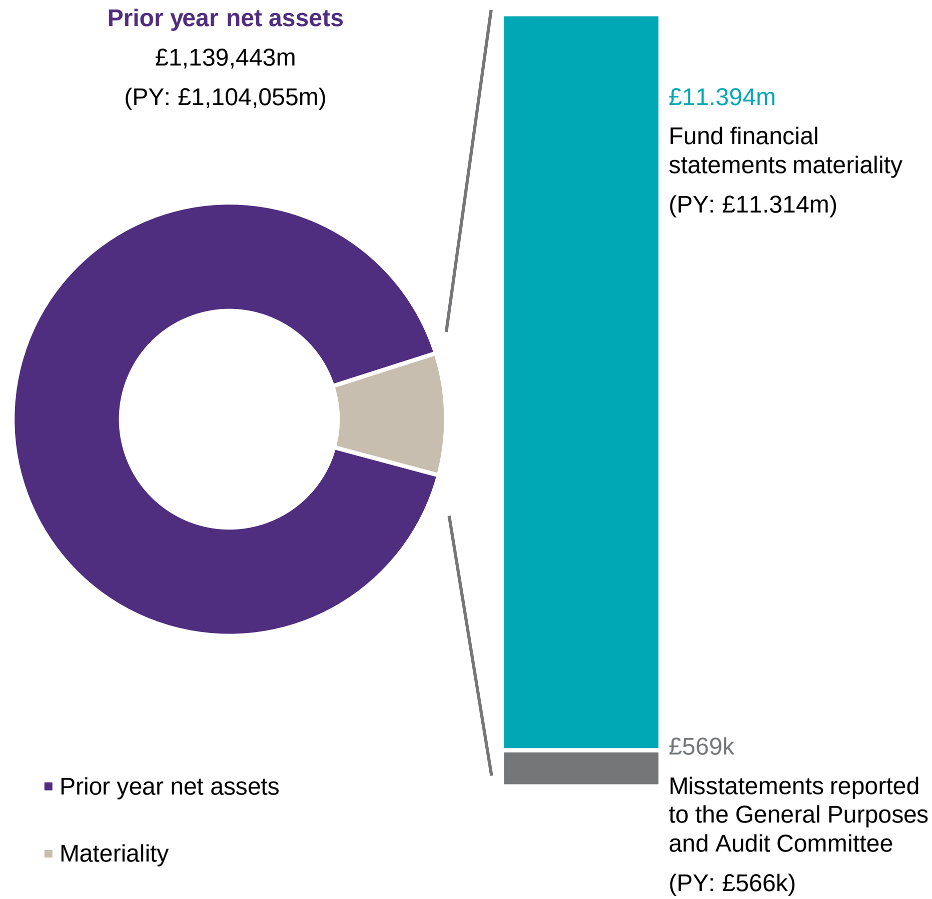
We have determined materiality at the planning stage of our audit to be £11.394m (PY £11.314m) for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to 1% of your actual net assets for the year ended 31 March 2018. We have set a separate lower materiality level for Related Party Transactions, which we have set at £500k, based on the circumstances involved.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the General Purposes and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the General Purposes and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £xm (PY £566k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the General Purposes and Audit Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees

General Purposes and Audit Committee
4 April 2019

General Purposes and Audit Committee
23 July 2019

General Purposes and Audit Committee
October 2019

Planning and risk assessment

Interim audit
February 2019

Audit Plan

Year end audit
June and July 2019

Audit Findings Report

Audit Opinion

Annual Audit Letter

Sarah Ironmonger, Engagement Lead

Sarah will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. Sarah will share her wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the General Purposes and Audit Committee. Sarah will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work.

Matt Dean, Senior Audit Manager

Matt will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Matt will attend General Purposes and Audit Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Matt will work with Internal Audit to secure efficiencies and avoid any duplication with work that has already been performed.

Rebecca Lister, In-Charge Accountant

Rebecca will lead the onsite team and will be the day to day contact for the audit. Rebecca will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Rebecca will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audit fees

The planned audit fees are £16,170 (PY: £21,000) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. There is no non-Code (as defined by PSAA) work planned. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations, should they occur, will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts in England was brought forward to 31 July. Wales and Scotland currently have different deadlines but there is convergence towards earlier close. This is a significant challenge for Pension Funds and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors there is a shorter period to complete our work and an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on the previous page). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. No other services were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

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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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