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# Pension Committee Agenda

To: Councillor Andrew Pelling (Chair)
Councillor Simon Hall (Vice-Chair)
Councillors Simon Brew, Robert Canning, Luke Clancy, Clive Fraser, Patricia Hay-Justice and Yvette Hopley

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

Reserve Members: Jamie Audsley, Sherwan Chowdhury, Pat Clouder, Patsy Cummings, Steve Hollands, Vidhi Mohan and Robert Ward

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 17 March 2020** at **10.00 am** in **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, 9 March 2020

Members of the public are welcome to attend this meeting, or you can view the webcast both live and after the meeting has completed at http://webcasting.croydon.gov.uk

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

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## AGENDA – PART A

**1. Apologies for Absence**

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

**2. Minutes of the Previous Meeting** (Pages 5 - 12)

To approve the minutes of the meeting held on 11 February 2020 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. Progress Report for Quarter 3 (to the end of December 2019)** (Pages 13 - 20)

This report provides an update on the performance of the London Borough of Croydon Pension Fund to the end of quarter 3 (to the end of December 2019).

**6. Key Performance Indicators for the Period Ended 31 December 2019** (Pages 21 - 34)

This report sets out the Key Perforance Indicators for the administraiton of the Local Government Pension Scheme for the period up to the end of December 2019.

**7.** **Funding Strategy Statement** (Pages 35 - 82)

For Members to receive and approve the finalised Funding Strategy Statement.

**8.** **Risk Management Policy** (Pages 83 - 94)

For Members to receive and review the revised Risk Management Policy.

**9.** **Knowledge and Skills Policy** (Pages 95 - 106)

For Members to receive and review the revised Knowledge and Skills Policy.

**10.** **Revisions to the Asset Allocation Strategy**

For Members to receive and review the revised Asset Allocation Strategy.

Papers to follow.

**11.** **Exclusion of the Press and Public**

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

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

**PART B**

**12.** **Progress Report (Part B) for Quarter 3 (to the end of December 2019)** (Pages 107 - 160)

This report provides an update on the performance of the London Borough of Croydon Pension Fund to the end of quarter 3 (to the end of December 2019).

**Pension Committee**

Meeting held on Tuesday, 11 February 2020 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

**MINUTES**

**Present:** Councillor Andrew Pelling (Chair);

Councillors Simon Brew, Robert Canning, Clive Fraser, Yvette Hopley and Robert Ward

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

**Also Present:** Nigel Cook (Head of Pensions and Treasury) and Lisa Taylor (Director of Finance, Investment and Risk (S151 Officer))

**Apologies:** Councillors Simon Hall and Patricia Hay-Justice

**PART A**

**11/20 Minutes of the Previous Meeting**

The minutes of the meeting held on 7 January 2020 were agreed as an accurate record.

Members asked that the minutes published online from 7 January 2020 be checked to ensure that they were the same correct version.

**12/20 Disclosure of Interests**

The Chair, Councillor Pelling, noted the relationship between the triennial evaluation, the level of contributions paid by the Council to the Pension Fund and the level of Council Tax paid by residents in Croydon thus creating an interest for Members in setting the Council's budget. It was therefore noted that Councillors had such an interest. The two pensioner representative members also declared that they were in receipt of a pension from the Fund.

**13/20 Urgent Business (if any)**

There were no items of urgent business. The Chair thanked Democratic Services officers for the exceptional effort that had been made since early hours to deal with logistical challenges that had arisen for the conduct of the meeting.

**14/20 Governance Review - London Borough of Croydon Pension Fund Action Plan**

Members received and reviewed the Action Plan produced in response to the Governance Review of the Pension Fund. This had been commissioned by the Pension Board and conducted by Aon Hewitt. The Head of Pensions and Treasury introduced the item noting that the Action Plan addressed every review finding with a responsible officer allocated for the delivery of action on each item.

The Chair noted the request by Members for there to be more meetings of the Pension Committee and training provided. Both requests were accepted. Meetings were to increase from four to six a year and Members would receive training linked to the recommendations of the Governance Review.

The Independent Chair of the Pension Board was invited to provide some context to the Governance Review. It was noted that not all Funds undertake an independent review and therefore the Independent Chair congratulated Croydon for having taken this step. It was highlighted that whilst there were opportunities for development and improvement, the review had shown there was lots being done well. The Pension Board had welcomed the detailed Action Plan made in response to the review although clarification was sought on what resources would be allocated for this to be fulfilled.

The Independent Chair emphasised the treatment of conflicts of interests and the need for clear blue water. In the light of this, the Independent Chair asked if it was sufficient for this to be covered by reference made to conflicts of interests included in the Council's Constitution. As an illustration it was described how there might be conflict for Members around the rate of Council's contributions to the Fund and wanting this to be as low as possible in order to benefit the Council's overall budget. The Independent Chair stressed that conflicts were not untoward but that they needed to be managed. Lastly, it was noted that the Secretary to the Local Government Pension Scheme Advisory Board had indicated the desire to make governance reviews mandatory.

The Director of Finance, Investment and Risk (Section 151 Officer) addressed the issue of resourcing to fulfil the Governance Review action plan. It was explained that the action plan had been carefully considered and a realistic approach taken with activity timed to happen over the full three years until the next review would be undertaken. Officers would provide the Committee with an update report on the implementation of the action plan every 12 months. (This was slightly different from the recommendations as noted in the report which the Committee agreed would be updated.) It was described how the updates on the Action Plan would be open and honest with transparency on any slippage and the reasons for this provided. It was noted that there continued to be some vacancies in the pension team but that the recruitment process was continuing.

It was confirmed that the Action Plan would be taken to the Pension Board and that the Pension Committee would receive an item on conflicts of interest within 12 months.

With regard to the context for the governance of the Fund, the Head of Pensions and Treasury explained that the Pension Regulator's remit was extended to include all public schemes from April 2019. It was therefore reasonable to expect some changes to the governance requirements that were expressed through Code of Practice 14.

The Chair explained how it was important to the governance of the Fund that the decisions of the Committee should be followed and that this needed to be reasserted. This was agreed by the Committee.

In response to a Member question, the Director of Finance, Investment and Risk (Section 151 Officer) clarified that only Aon Hewitt had access to the responses to the survey underpinning the Governance Review. There was confidence Aon Hewitt would have reviewed all of the comments made before these had been summarised in its report. Aon Hewitt was not at the meeting because the item was to consider Croydon's Action Plan made in response to the findings of the review.

In response to a further Member question, the Director of Finance, Investment and Risk (Section 151 Officer) stressed that, as already agreed, the Committee would receive an item on conflicts of interests within 12 months and that the Monitoring Officer would be consulted as part of this work. Reassurance was provided that the action plan contained delivery dates and detailed when action was required to be taken by the Pension Board. It was described how time had been spent going through the recommendations contained in the Governance Review with prioritisation made (although it was acknowledged that some changes to the action plan may result from events over time). The Independent Chair of the Pension Board expressed his preference for a separate provision outside the Council's Constitution to encompass the treatment of conflicts of interests, describing as good governance the separation between the Council's role as the scheme's administrator and lead employer.

A Member questioned the voting rights assigned to the Members of the Pension Committee (with specific reference made to the fact that the employee representative was non-voting). It was noted by the Independent Chair of the Pension Board that Croydon was unusual in having given voting rights to Committee Members who were not Councillors but that having another employer on the Pension Committee might be considered. It was agreed to add to the Committee's work programme consideration of the Committee's make-up and voting rights. A review of the make-up of the Committee would be undertaken.

There was discussion of the comments in the Governance Review regarding the challenge posed by the knowledge and skills needed to be an effective Member of the Pension Committee. Concern was expressed about the turnover in Members and the risk this posed in terms of undermining the expertise of the Committee. Members suggested the need to write to those responsible for making appointments in both Groups to recommend the need for consistency. Councillor Fraser, in his capacity as the Group Whip for the

Administration, agreed the point was well made and that this would be highlighted.

**RESOLVED:** The Committee resolved to AGREE the report with the following revisions/additions:

i. An update on the implementation of the action plan will be provided to the Pension Committee every 12 months;
ii. The Pension Committee will receive an item on conflicts of interests within 12 months of the meeting;
iii. The need to follow/implement the decisions of the Pension Committee was reasserted; and
iv. An item to give consideration to representation and voting rights would be added to the Pension Committee's work programme.

**15/20 Update on Triennial Actuarial Valuation**

*The Director of Finance, Investment and Risks left the meeting to attend to other Council business at 10:38am.*

A presentation on the triennial actuarial valuation was provided by Robert McInroy the Scheme Actuary (Hymans Robertson LLP). The key points covered included:

i. The triennial actuarial valuation was required in legislation and in effect acted as a health check to ensure the contribution rates and the Funding Strategy Statement were correct. Essentially this was to check that the value of the assets of the Fund were sufficient to cover the estimated liabilities (the costs of member benefits);
ii. The health check was conducted based on a snap shot of the Fund on 31 March 2019;
iii. The position as a result of the valuation was positive with the Fund having moved from 73% to 88% funded;
iv. In undertaking a new valuation, it allowed changes that had occurred since the last valuation in 2016 to be taken into account. The impact of the slowing down in the growth of life expectancy and pension increases were given as illustrations of changes to the actuarial assumptions that had impacted on the triennial valuation;
v. The length of the Fund's liabilities meant it was important to attempt to get the best estimate with regulations requiring a prudent approach be taken. It was also necessary for the triennial valuation to show the likelihood of the Fund achieving investment returns over a number of years;
vi. The valuation included a variety of different circumstances with illustrations of the effect on the Fund including different levels of inflation; and
vii. Information allowing comparisons to be made against the performance of other funds would be published in 2021.

**16/20 Exclusion of the Press and Public**

The following motion was moved by Councillor Pelling and seconded by Councillor Hopley to exclude the press and public:

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

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

**17/20 Update on the Triennial Actuarial Valuation (Part B)**

*Councillor Ward left the meeting for another meeting at 11:15am.*

The Head of Pensions and Treasury described how a meeting had been held with the other scheme employers with only eight attending. They had received a similar presentation from the Scheme Actuary and had the opportunity of an individual meeting to discuss specifics. The lack of engagement from academy trusts was noted. Rather it was those with a smaller number of employees that attended (because they were more likely to be subject to variations). The employer meeting was described as being positive and had gone well which was ascribed to a decline in the contribution rates and demonstrated some peace of mind. It was noted that the Council was the largest employer accounting for 85% of the Fund. All employers were being consulted on the Funding Strategy Statement with the outcome of this exercise to be shared with the Committee at its meeting on 17 March 2020 for its approval.

The Scheme Actuary recommended a cautious approach to setting the new rate of contributions; that it was better to nudge these in the right direction and not to overreact to short term events. It was therefore being recommended to keep the contribution level the same for one year with reductions over the subsequent two years. This was described as a risk adverse strategy which would achieve the objective of protecting the Fund.

In response to a Member question, the Head of Pensions and Treasury reported that how the Property Asset Transfer was to be accounted for was still under discussion. However, it was also stressed that given the size of the Fund (£1.4 billion) the Property Asset Transfer was not of key consideration to performance. It was explained that the recognition of Property Asset Transfer would be a statement of facts in the accounts based on the guidance that existed and would not be subject to decision by the Committee.

The Scheme Actuary confirmed that the Fund could still achieve its target without the 2.5% return being assumed from the Property Asset Transfer because of the size of the Fund.

Equally, it was explained that a drop in contributions would not have a material impact on the fund. Members discussed and sought clarification on the split between the contributions made to the Fund by the Council and employees.

*The Independent Chair of the Pension Board left the meeting at 11:48am.*

There was further discussion on the merits of maintaining contributions at the current level, decreasing them and when a decrease might be implemented.

The Scheme Actuary reminded Members of the need to set the contribution level and that this would be reconsidered in three years after the next valuation. Therefore, this decision in terms of pension funding was seen as short term and incremental movement in the right direction. It was noted by the Chair that a reduction in contributions would be to the benefit of Council Tax payers. It was noted that employee contributions were set statutorily.

There was discussion of whether this approach to contributions could be described as being in line with the approach being taken by other local authority funds and especially those that were being seen to do well (with 100% funding). However, it was noted that information on other funds was not available on which to make a judgement. A Member questioned if a reduction in contributions was the right approach as the Fund was not 100% funded. The Scheme Actuary provided reassurance stating that the size of the Fund was sufficient to sustain a small reduction. The Head of Pensions and Treasury cautioned against making the automatic assumption that the target should be 100% funded when in effect the Fund was always planning for 80 years in the future. It was noted that in 2018/19 the Council's contribution was £29.6 million with £12.7 million paid by employees.

Members noted their desire for prudence and that it was reasonable to make a reduction in contribution rates against the backdrop of the financial pressures on the Council.

The Head of Pensions and Treasury confirmed that the Committee would be asked to agree the Investment Strategy at its next meeting.

**RESOLVED:** The Committee AGREED to note the report and AGREED the following recommendations:

i. Noted the progress towards concluding the triennial actuarial valuation and the whole fund results; and
ii. Approved the draft Funding Strategy Statement.

**18/20 Minutes of the Previous Meeting (Part B)**

The minutes of the meeting held on 7 January 2020 were agreed as an accurate record with the inclusion of one small change (replacing 'rectifying with decision' with 'rectification').

The meeting ended at 12.07 pm

**Signed:** .....

**Date:** .....

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# Croydon Council

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|---|---|
| **REPORT TO:** | **PENSION COMMITTEE**<br>**17 March 2020** |
| **SUBJECT:** | **Progress Report for Quarter Ended 31 December 2019** |
| **LEAD OFFICER:** | **Nigel Cook**<br>**Head of Pensions and Treasury** |
| **CABINET MEMBER** | **Councillor Simon Hall**<br>**Cabinet Member for Finance and Resources** |

**CORPORATE PRIORITY/POLICY CONTEXT:**

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

**FINANCIAL SUMMARY:**

This report shows that the market value of the Pension Fund (the Fund) investments as at 31 December 2019 was £1,347.2m compared to £1,332m at 30 September 2019, an increase of £15.2m and a return of 1.07% over the quarter. The performance figures, independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor Mercer.

## 1 RECOMMENDATIONS

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

## 2 EXECUTIVE SUMMARY

2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 31 December 2019. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied, specifically current and planned investments. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors are included as appendices to this report.

## 3 DETAIL

### Section 1: Performance

3.1 The 2019 Triennial Actuarial Valuation has now been completed showing a whole of fund funding position of 88% using a future investment return assumption (otherwise described as the discount rate) of 4.0% p.a. The Fund would be 100% funded if an assumed investment return of 4.8% p.a. is used. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and on the basis that other assumptions remain constant, the funding gap will close.

3.2 Since the valuation date the Fund has returned 7.4%. This will have had a positive impact on the funding level.

3.3 Details of the performance of individual components of the portfolio are detailed in the report produced by the Fund's investment advisors in Appendix A to the Part B report.

### Section 2: Asset Allocation Strategy

3.4 The current asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute A29/15 refers). The portfolio now reflects the proportions described in that strategy, allowing for the day-today volatility of the markets.

3.5 The target portfolio can be broken down as follows:

| ***Asset Class*** | | ***Target Allocation*** | ***Allowable Tolerance*** |
|---|---|---|---|
| Equities including allocation to emerging markets.<br>Fixed interest<br>Alternates<br>*Comprised of:* | | 42%<br>23%<br>34% | +/- 5%<br>+/- 5%<br>+/- 5% |
| Private Equity<br>Infrastructure<br>Traditional (Commercial) Property<br>Private Rental Sector (Residential) Property | 8%<br>10%<br>10%<br>6% | | |
| Cash | | 1% | |
| | **Total** | **100%** | |

3.6 **Monitoring of asset allocation**

3.6.1 **Global Equity –** The Global Equity portfolio had another strong quarter, returning 4.2%; it was the major contributor to the return of the Fund over the quarter.

On 1 August 2019 a 50% currency hedge was applied to the LGIM Developed World (ex-Tobacco) Equity fund. As at 31 December 2019 the hedge was working in favour of the Fund, resulting in a gain of approximately £17.2m extra when compared to the unhedged element.

Since the quarter end global equity markets have been negative due to the uncertainty caused by the possible effect of the coronavirus to global growth despite the attempts at intervention by the US Federal Reserve and announcements by the Bank of England.

3.6.2 The Fund divested from the London CIV Emerging Market mandate in November 2019 and is currently holding the proceeds in cash. This means the Fund is currently at the lower end of the target asset allocation, although we are comfortable with this position at the current time.

3.6.3 **Fixed Interest** – During the quarter fixed interest returns were flat and the target allocation to this asset class was maintained. Currently these funds are valued at 22.0% and are considered at the target allocation of the Fund.

3.6.3 **Infrastructure** – Due to the nature of the assets performance of Infrastructure investments and indeed Private Equity, discussed in more detail below, the performance of these investments is better measured over a period of time, rather than on a quarter by quarter basis. All the Fund's Infrastructure investments are performing as expected and above the benchmark of CPI +5% on a since inception basis. The table below (paragraph 3.6.7) shows that the Fund is marginally over-exposed for this asset class (11.7% compared with a target allocation of 10%). Officers are expecting this to continue in the short term as the Fund has had to over commit in order to get to the target allocation of cash invested. Our allocations to Equitix, the Green Investment Bank, Temporis and Access are all yielding cash which will fund new investments and also ensure the allocation comes back into line over the medium term.

3.6.4 **Private Equity** – .Private Equity showed a negative return over the quarter, this being a reflection of the strengthening pound following the General Election in December 2019, rather than being due to performance of the managers. The private equity programme is ongoing which means the effects of currency movements will be muted over the long term as calls and distributions are matched at a fairly even rate. This part of the portfolio is at 8.4% of the Fund which is slightly overweight. This is mainly due to the good performance of the asset class.

3.6.5 **Traditional Property** – The Schroders portfolio is on target compared to the asset allocation target. The portfolio continues to perform relatively well.

3.6.6 **Private Rental Sector –** The Fund's total commitment of £60m is now fully invested in the PRS mandate. The allocation is at 4.6% which is below the original target of 6%. This is mainly due to the good performance experienced by the rest of the portfolio and also to the stagnation of UK house prices. The mandate continues to perform well compared to the peer group. Although the Fund is below its target allocation, we do not consider it appropriate to top up this part of the portfolio further at this time.

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

**London Borough of Croydon Pension Fund**
**Fund valuation and asset allocation for the quarter ending 31 December 2019**

| | Valuation at 30/09/2019 £'000 | Net Cashflow £'000 | Gain/loss £'000 | Valuation at 31/12/2019 £'000 | Asset Allocation Fund Percentage | Asset Allocation Target Percentage |
|---|---|---|---|---|---|---|
| **Equities** | | | | | **38.7%** | **42%** |
| Legal & General FTSE4Good | 178 | - | 48 | 227 | | |
| Legal & General FTSE World (Ex Tobacco) | 499,666 | - | 21,015 | 520,681 | | |
| LCIV Emerging Markets | 58,422 | - 57,060 | - 1,362 | - | | |
| **Fixed Interest** | | | | | **22.0%** | **23%** |
| Standard Life | 135,963 | - | 247 | 136,210 | | |
| Wellington | 72,477 | - | - 2,871 | 69,607 | | |
| LCIV Global Bond | 89,364 | - | 606 | 89,971 | | |
| **Infrastructure** | | | | | **11.7%** | **10%** |
| Access | 16,182 | 1,394 | - 706 | 16,871 | | |
| Temporis | 32,348 | - 4,133 | - | 28,215 | | |
| Equitix | 74,744 | 731 | 1,203 | 76,679 | | |
| Green Investment bank | 24,308 | - 592 | 363 | 24,079 | | |
| I Squared | 10,078 | 1,938 | - 320 | 11,696 | | |
| **Private Equity** | | | | | **8.4%** | **8%** |
| Knightsbridge | 34,281 | 239 | - 1,277 | 33,243 | | |
| Pantheon | 67,102 | - 1,904 | - 3,530 | 61,667 | | |
| Access | 11,988 | 2,068 | - 507 | 13,549 | | |
| North Sea | 3,456 | 693 | 5 | 4,155 | | |
| **Property** | | | | | **9.4%** | **10%** |
| Schroders | 126,169 | - | 1,005 | 127,175 | | |
| **Property PRS** | | | | | **4.6%** | **6%** |
| M&G | 61,404 | - 16 | 284 | 61,672 | | |
| **Cash** | | | | | **5.3%** | **1%** |
| Cash | 13,863 | 57,511 | 120 | 71,494 | | |
| **Fund Total** | **1,331,995** | **869** | **14,325** | **1,347,190** | **100%** | **100%** |

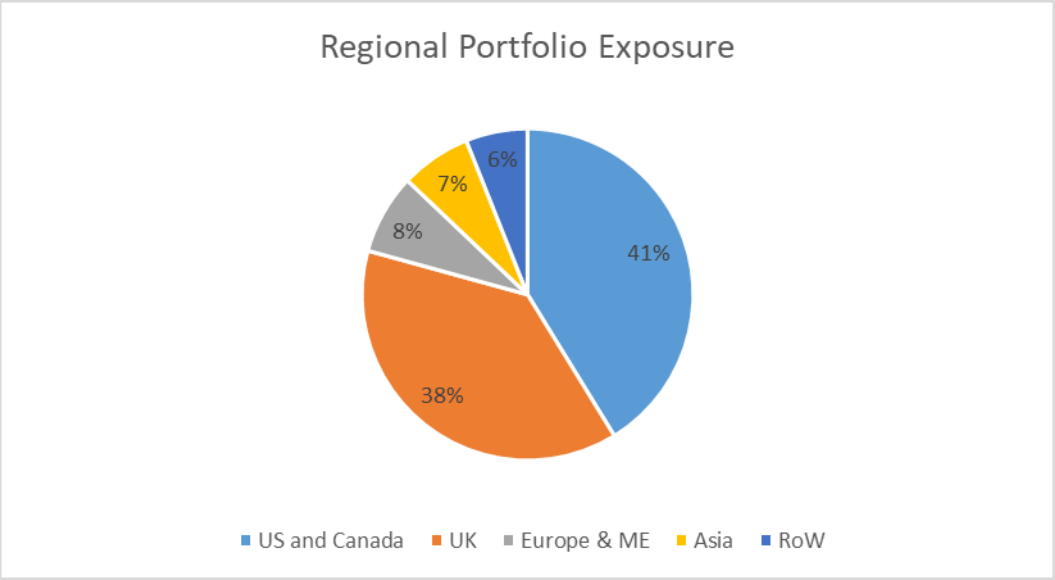
*Valuations are based on the bid price as reported by the Fund Managers. The valuations of the Infrastructure and Private Equity funds are the latest available and can be lagged by 3 months.*

## 3.7 Regional Exposure

3.7.1 The Committee asked for an indication of the geographical dispersion of the underlying assets comprising the portfolio. This is set out graphically in the

chart below. This information is for illustrative purposes only. It should be noted that there are differences in the period represented as some data is updated far more frequently than others.

**Graph 2: Geographic dispersion of funds.**




3.7.2 The descriptor Asia includes Japan, Korea and Australia. The rest of the world (RoW) includes the continent of Africa and Latin America. ME is the abbreviation for the Middle East.

3.7.3 It should be noted that of the 38% invested in the UK 14% is allocated to Property and 10% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US and Canada.

**Section 3: Risk Management**

3.7 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. Dependent upon that are a number of issues.

3.8 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.

3.9 Mercer, the Fund's investment advisor, have drafted a Fund Monitoring Report, for the 3 months to 31 December 2019 and an analysis of the state of the markets. These reports are included in Part B of this Committee agenda.

**Section 4: Investment Manager Visits**

3.10 During the quarter, Members of the Pensions Committee met the following managers:

- Schroders, October 2019
- Pantheon, November 2019
- Equitix, December 2019

These visits help develop the relationship between investor and fund manager and count against training day requirements.

## 4 CONSULTATION

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

## 5 FINANCIAL CONSIDERATIONS

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

## 6. LEGAL CONSIDERATIONS

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

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

## 7. FREEDOM OF INFORMATION

7.1 This report contains only information that can be publicly disclosed.

## 8 DATA PROTECTION IMPLICATIONS

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

No.

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

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

**Approved by**: Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

## 9. HUMAN RESOURCES CONSIDERATIONS

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

**Approved by:** Sue Moorman , Director of Human Resources

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**CONTACT OFFICER:**

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

**BACKGROUND DOCUMENTS:**

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

**Appendices**:

There are no part A appendices.

**Part B appendices**:

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

**Appendix A**: London Borough of Croydon Returns to 31 December 2019, Mercer

**Appendix B**: Market Background and Market View Q4 2019, Mercer

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# Croydon Council

**For General Release**

| | |
|---|---|
| **REPORT TO:** | **PENSION COMMITTEE**<br>**17 March 2020** |
| **SUBJECT:** | **Croydon Pensions Administration Team Key Performance Indicators for the Period**<br>**1 November 2019 to 31 January 2020** |
| **LEAD OFFICER:** | **Vicki Richardson**<br>**Head of HR & Finance Service Centre** |
| **CABINET MEMBER:** | **Councillor Simon Hall**<br>**Cabinet Member for Finance and Resources** |
| **WARDS:** | **All** |
| **CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:**<br>Sound Financial Management: The Pension Committee is responsible for the effective administration of the Local Government Pension Scheme. These Key Performance indicators provide a measure of how well that administration functions. | |
| **FINANCIAL IMPACT**<br>Poor administration may ultimately lead to incorrect calculation or payment of benefits or indeed financial penalties. | |

## 1. RECOMMENDATIONS

The Committee is asked to:

Note the Key Performance Indicators and the performance against these indicators set out in Appendix A to this report.

## 2. EXECUTIVE SUMMARY

2.1 This report sets out Key Performance Indicators for the administration of the Local Government Pension Scheme for the three month period up to the end of January 2020.

## 3. DETAIL

3.1 Good governance suggests that the performance of the administration of the

Local Government Pension Scheme should be monitored. This report has been developed using the guidance published by CIPFA (Administration in the LGPS: A Guide for Pensions Authorities) and is reporting to the committee on the LGPS administration performance for the period 1 November 2019 to 31 January 2020. The indicators cover legal deadlines; team performance targets, case levels and take up of member self-service and the indicators and performance against these are detailed more fully in Appendix A to this report.

**COMMENTARY**

3.2 Priority is always given to the life events that most impact scheme members which are retirements and deaths. Performance against target remains strong in this area.

3.3 A high number of joiners were notified to the Pension Team in December 2019 and January 2020 which impacted performance against target.

3.4 At end January there were 5435 workflow tasks outstanding. Over 60% of these outstanding tasks relate to a historical backlog of deferred benefit cases. A procurement exercise is underway to seek support from a specialist provider to clear this historical backlog and is expected to be completed by spring 2020. In addition all new deferred benefit cases are being processed within legal deadlines with the aim of ensuring that no further backlogs build up.

3.5 A recruitment exercise has recently been undertaken and we have now recruited a Pension Manager, Governance Team Manager, Pension Team Leader and Senior Pension Officer who are all in post. We have also recruited 2 x Pension Officers who are expected to start their employment in March. There are remaining vacancies for a Senior Pension Officer, 2 x Pension Support Officer and a Pension Governance Officer and recruitment to these vacant posts will commence in March 2020.

3.6 Performance information on member take-up for online self-service has now been included in the report which shows that only 24% of active and deferred pensioner members have registered. The Pension team plan to write to scheme members in the summer to further promote take-up of the service.

## 4. CONSULTATION

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

## 5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

## 6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal implications arising from

the recommendations within this report.

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

## 7. HUMAN RESOURCES IMPACT

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

**Approved by:** Sue Moorman, Director of Human Resources

## 8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

## 9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

## 10. CRIME AND DISORDER REDUCTION IMPACT

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

## 11. DATA PROTECTION IMPLICATIONS

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

**NO**

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

**Approved by:** Sue Moorman, Director of Human Resources

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**CONTACT OFFICER:**

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

**BACKGROUND DOCUMENTS:**

None

## Appendices

Appendix A: Croydon Pensions Admin Team Performance Report, January 2020

# Croydon Pensions Admin Team

Performance Report

*January 2020*

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# Contents

# Legal Deadlines

| Process | Legal Requirement | Total Number Completed | % Achieved in legal deadline | Total Number Completed | % Achieved in legal deadline | Total Number Completed | % Achieved in legal deadline | Direction of Travel | Comments |
|---|---|---|---|---|---|---|---|---|---|
| | | November 2019 | | December 2019 | | January 2020 | | | |
| **Send a notification of joining the LGPS to a scheme member** | Two months from the date of joining the scheme or earlier if within one month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled | 129 | 96.9% | 219 | 83.56% | 256 | 82.81% | ↓ | A large number of starters were notified to the pension team in December and January which impacted performance |
| **Inform a scheme member of their calculated benefits (refund or deferred) – backlog cases** | As soon as practicable and no more than two months from the date of notification (from employer or scheme member) | 110 | 28.18% | 78 | 21.79% | 64 | 26.56% | ↑ | Historical backlog is impacting performance. Steps are being taken to engage additional resources to address the backlog |
| **Inform a scheme member of their calculated benefits (refund or deferred) – new cases** | As soon as practicable and no more than two months from the date of notification (from employer or scheme member) | 94 | 100% | 65 | 100% | 87 | 100% | → | |

# Legal Deadlines

| Process | Legal Requirement | Total Number Completed | % Achieved in legal deadline | Total Number Completed | % Achieved in legal deadline | Total Number Completed | % Achieved in legal deadline | Direction of Travel | Comments |
|---|---|---|---|---|---|---|---|---|---|
| **Notify the amount of retirement benefits** | One month from the date of retirement if on or after normal pension age or two months from the date of retirement if after normal pension age | 42 | 100% | 41 | 100% | 41 | 100% | ➡ | |
| **Provide a retirement quotation on request** | As soon as practicable but no more than two months from the date of request unless there has already been a request in the last 12 months | 45 | 97.78% | 37 | 94.59% | 54 | 100% | ⬆ | |
| **Calculate and notify (dependent(s) of amount of death benefits** | As soon as possible but in any event no more than two months from date of becoming aware of death or from date of request from a third party (e.g. personal representative) | 15 | 93.33% | 18 | 94.44% | 21 | 100% | ⬆ | |

# Legal Deadlines

| Process | Legal Requirement | Total Number Completed | % Achieved in legal deadline | Total Number Completed | % Achieved in legal deadline | Total Number Completed | % Achieved in legal deadline | Direction of Travel | Comments |
|---|---|---|---|---|---|---|---|---|---|
| **Calculate and notify (dependent(s) of amount of death benefits** | As soon as possible but in any event no more than two months from date of becoming aware of death or from date of request from a third party (e.g. personal representative) | 15 | 93.33% | 18 | 94.44% | 21 | 100% | ↑ | |
| **Provide all active and deferred members with annual benefit statements each year** | By 31st August | 16167 | > 99% | | | | | N/A | All cases that were due to be issued an Annual Benefit statement have been completed |

# Team Performance Targets

| Process | Team Target | Total Number Completed | % Achieved against target | Average days to process | Total Number Completed | % Achieved against target | Average days to process | Total Number Completed | % Achieved against target | Average days to process | Direction of Travel | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | November 2019 | | | December 2019 | | | January 2020 | | | | |
| **Send a notification of joining the LGPS to a scheme member** | 30 days from date of notification of joining member | 129 | 94.57% | 11 | 219 | 81.74% | 44 | 254 | 82.42% | 25 | ↑ | A large number of starters were notified to the pension team in December and January which impacted performance |
| **Inform a scheme member of their calculated benefits (refund or deferred) – backlog cases** | 40 working days from date of notification (from employer or scheme member) | 367 | 27.27% | 367 | 78 | 20.51% | 975 | 64 | 23.44% | 715 | ↑ | Historical backlog is impacting performance. Steps are being taken to engage additional resources to address the backlog |
| **Inform a scheme member of their calculated benefits (refund or deferred) – new cases** | 40 working days from date of notification (from employer or scheme member) | 30 | 94 | 100% | 65 | 100% | 7 | 87 | 95.40% | 20 | ↓ | Whilst 4 cases were not completed within team target during January, all were completed within the legal deadline |
| **Notify the amount of retirement benefits** | 20 working days from date of retirement | 42 | 100% | 1 | 41 | 100% | 5 | 41 | 100% | 2 | → | |
| **Provide a retirement quotation on request** | 15 working days from date of request | 45 | 95.56% | 5 | 37 | 89.19% | 10 | 54 | 96.3% | 4 | ↑ | Whilst 2 cases were not completed within team target during January , all were completed within the legal deadline |

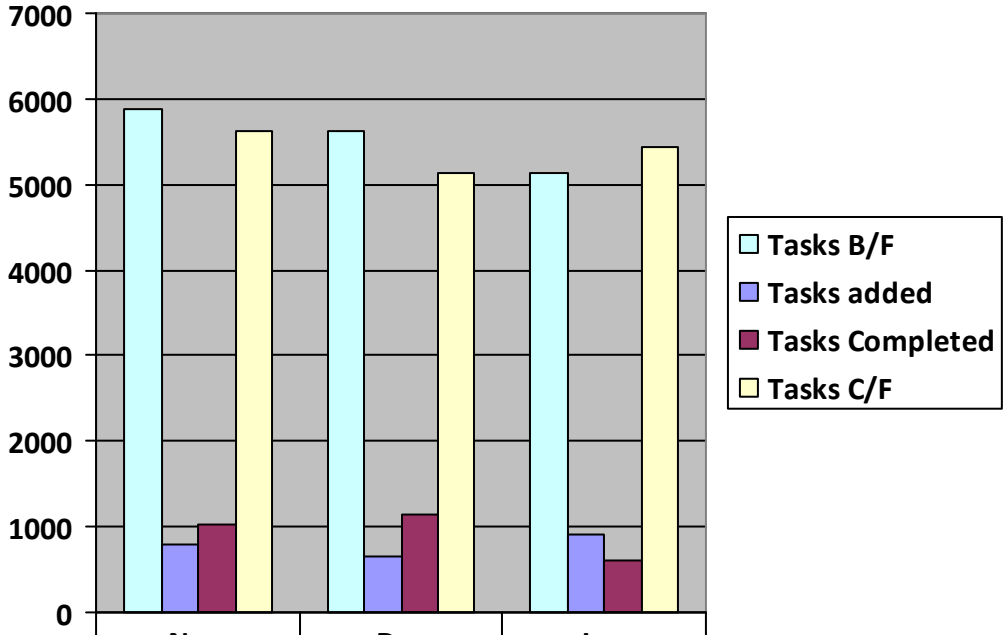
# Team Performance Targets

| Process | Team Target | Total Number Completed | % Achieved against target | Average days to process | Total Number Completed | % Achieved against target | Average days to process | Total Number Completed | % Achieved against target | Average days to process | Direction of Travel | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Calculate and notify (dependent(s) of amount of death benefits** | 20 working days from receipt of all information | 15 | 100% | 3 | 18 | 88.89% | 16 | 21 | 100% | 6 | ↑ | |



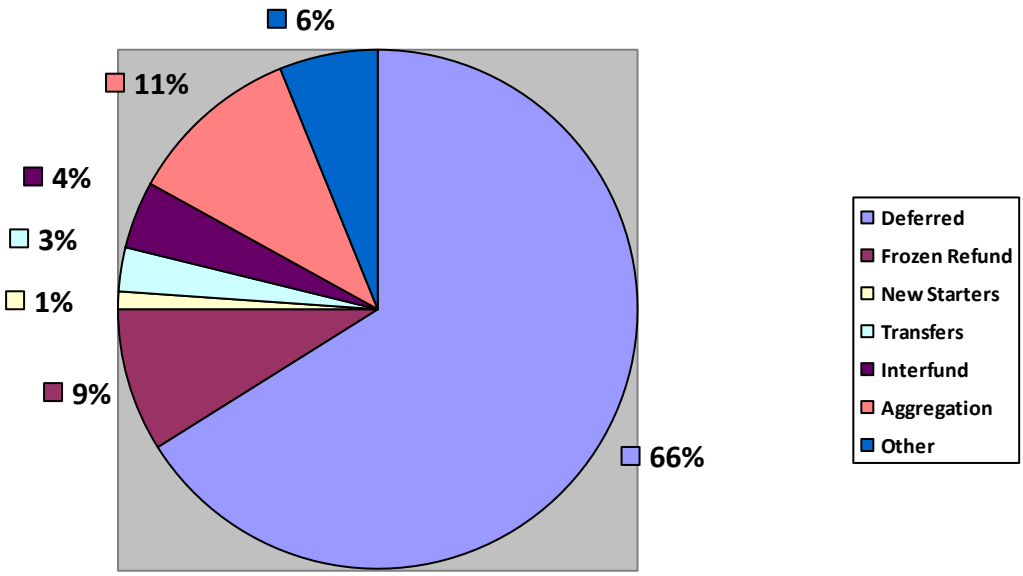
| Direction of travel reference table | |
|---|---|
| ↑ | 100% achieved against target performance improved |
| → | 100% achieved on target and performance static |
| ↑ | >90% achieved against target and performance improved |
| → | >90% achieved against target and performance static |
| ↓ | >90% achieved against target and performance declined |
| ↑ | <90% achieved against target and performance improved |
| → | <90% achieved against target and performance static |
| ↓ | <90% achieved against target and performance declined |

## Case levels




| | Nov | Dec | Jan |
|---|---|---|---|
| Tasks B/F | 5869 | 5631 | 5142 |
| Tasks added | 790 | 652 | 909 |
| Tasks Completed | 1028 | 1141 | 616 |
| Tasks C/F | 5631 | 5142 | 5435 |

## Outstanding Cases by Type



## Member self-service

| | |
|---|---|
| Scheme members registered | 3879 (24%) |
| Number scheme members who accessed annual benefit statement Oct 2019 – Jan 2020 | 1041 |

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# Croydon Council

| | |
|---|---|
| **REPORT TO:** | **Pension Committee**<br>**17 March 2020** |
| **SUBJECT:** | **Funding Strategy Statement** |
| **LEAD OFFICER:** | **Nigel Cook Head of Pensions and Treasury** |
| **CABINET MEMBER** | **Councillor Simon Hall**<br>**Cabinet Member for Finance and Resources** |
| **WARDS:** | **All** |
| **CORPORATE PRIORITY/POLICY CONTEXT:**<br>**Sound Financial Management**: the Pensions Committee is responsible to other Scheme Employers for the sound management of the Local Government Pension Scheme. | |
| **FINANCIAL SUMMARY:**<br>The Strategy determines the underlying principles for the triennial valuation. The valuation sets the contribution rate for the Council and for all other Scheme employers. | |

## 1. RECOMMENDATION

The Committee is recommended to:

1.1 Note the outcome of the recent consultation on the Funding Strategy Statement.

1.2 Adopt the Funding Strategy Statement, included as Appendix A.

## 2. EXECUTIVE SUMMARY

2.1 The Funding Strategy Statement, Appendix A, summarises the Croydon Fund's approach to funding its liabilities.

## 3 DETAIL

3.1 It is the responsibility of Croydon Council, acting in its capacity as Administering Authority to the Croydon Pension Fund, to prepare, publish and maintain the Fund's Funding Strategy Statement (FSS). The Fund reviews the FSS at least every three years alongside the valuation but also from time-to-time when required.

3.2 The Pension Committee considered a 2019 valuation update report and draft version of the revised FSS at its 11th February meeting (following the postponement of the December meeting). That report provided the headline results of the 2019 valuation and highlighted the key changes to the FSS since the last review in 2017. The report also provided context in how the strategy relates to key stakeholders (including how it is used to set employer contribution rates) and the investment strategy for the Fund. The report also highlighted to the Committee, the proposed approach to be adopted for consultation on the review.

3.3 The revised FSS was approved in draft form by the Pension Committee on 11th February 2019.

3.4 Working alongside the Fund Actuary, Fund Officers have now completed the consultation period with employers around the revised FSS and their individual 2019 valuation results and contribution rates. This consultation included an Employer Forum on 27th January 2020 - which offered a surgery slot with the Fund Actuary, to discuss their own individual results and questions.

3.5 The Forum was attended by representatives from:

- Atwood Academy
- The Harris Federation
- The Collegiate Trust
- PACE Academy Trust (Chipstead Valley)
- Croydon College
- Oasis Community Learning Academy Trust
- NMBEC Norbury Manor Business and Enterprise College for Girls (Norbury Manor)
- Croydon Community Mediation

3.6 Following the end of the consultation, the final version of the FSS, is attached to this report as Appendix A. This contains only minor administration updates since the approved draft version (e.g. updating the effective date, consultation dates and officer contact details).

3.4 The Committee is asked to note the outcome of the recent consultation on the FSS, represented by the final version of the FSS and to adopt the FSS, appended.

3.5 Based on the final FSS, Fund Officers will work alongside the Fund Actuary to finalise the required rate of employers' contributions to the Fund for the period from 1 April 2020 to 31 March 2023 (set out in the Rates and Adjustments certificate). This report must be published no later than by 31 March 2020.

## 4 FINANCIAL CONSIDERATIONS

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

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

## 5. OTHER CONSIDERATIONS

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

## 6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that an administering authority has a duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"). Regulation 58 of the 2013 Regulations require the Administering Authority to have regard to the "Guidance on Preparing and Maintaining a Funding Strategy Statement" published by CIPFA and the current version of its Investment Strategy Statement which is required to be prepared and published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 .

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

## 7. FREEDOM OF INFORMATION

7.1 This report contains only information that can be publicly disclosed.

## 8 DATA PROTECTION IMPLICATIONS

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

No.

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

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

**Approved by:** Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

## 9. HUMAN RESOURCES CONSIDERATIONS

9.1 There are no immediate workforce implications arising from the recommendations within this report. The pension scheme is an important benefit for the LBC workforce both for recruitment and retention.

**Approved by**: Sue Moorman, Director of Human Resources

---

**CONTACT OFFICER:**

PEN 17032020

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

**BACKGROUND DOCUMENTS:**

None.

**Appendices**

**Appendix A**: Draft Funding Strategy Statement

HYMANS ROBERTSON

# London Borough of Croydon Pension Fund

## Draft Funding Strategy Statement

November 2019

# Contents

Draft Funding Strategy Statement Page



Appendices



PUBLIC | SECTOR

# 1 Introduction

### 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Croydon Pension Fund ("the Fund"), which is administered by Croydon Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2020.

### 1.2 What is the London Borough of Croydon Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Croydon Pension Fund, in effect the LGPS for the Croydon area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

### 1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;

- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see Section 4)

### 1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

### 1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

### 1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Nigel Cook in the first instance as follows:

**Nigel Cook** (Croydon Treasury and Pensions)
nigel.cook@croydon.gov.uk
Direct line: 020 8726 6000 (ext 62552)

# 2 Basic Funding Issues

(More detailed and extensive descriptions are given in Appendix D).

### 2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

### 2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

.

### 2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer term issue.

### 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

### 2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation: this has been achieved by building in a slightly higher required likelihood of reaching funding target, all other things being equal.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

### 2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

# 3 Calculating contributions for individual Employers

## 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

## 3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

## 3.3 The different approaches used for different employers

| Type of employer | Scheduled Bodies | | | Community Admission Bodies and Designating Employers | | Transferee Admission Bodies* |
|---|---|---|---|---|---|---|
| **Sub-type** | **Local Authorities** | **Colleges** | **Academies** | **Open to new entrants** | **Closed to new entrants** | **(all)** |
| **Funding Target Basis used** | Ongoing participation basis, assumes long-term Fund participation (see Appendix E) | | | Ongoing participation basis, but may move to "gilts exit basis" - see Note (a) | | Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E) |
| **Primary rate approach** | (see Appendix D – D.2) | | | | | |
| **Stabilised contribution rate?** | Yes - see Note (b) | No | No | No | No | No |
| **Maximum time horizon – Note (c)** | 20 years | 20 years | 20 years | 20 years – subject to security / covenant check | Future working lifetime – subject to security / covenant check | Outstanding contract term |
| **Secondary rate – Note (d)** | Monetary amount | % of pay | % of pay | % of pay | Monetary amount | % of pay or monetary amount |
| **Treatment of surplus** | Covered by stabilisation arrangement | Reduce contributions by spreading the surplus over the remaining contract term | | Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Administering Authority | | Reduce contributions by spreading the surplus over the remaining contract term |
| **Likelihood of achieving target – Note (e)** | 75% | 75% | 75% | 75% | 75% | 55-75% (depend on outstanding contract term) |
| **Phasing of contribution changes** | Covered by stabilisation arrangement | None | None | None | None | None |
| **Review of rates – Note (f)** | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations | | | | | Particularly reviewed in last 3 years of contract |
| **New employer** | n/a | n/a | Note (g) | Note (h) | | Notes (h) & (i) |
| **Cessation of participation: debt/credit payable** | Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j). | | | Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j). | | Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details |

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

### Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

### Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), Croydon Council's contributions will be kept at current 2019/20 levels in 2020/21 then reduced by 0.5% of pay per annum in 2021/22 and 2022/23, with future increases and decreases limited to 1.0% of pay per annum thereafter. This stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

### Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

### Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will be collected as a monetary amount.

### Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

### Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

### Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

### Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

**Note (i) (New Transferee Admission Bodies)**

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular, there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

### Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply an adjustment to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

### 3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics.

### 3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### 3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

### 3.7 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

### 3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

The Administering Authority therefore has put in place an approach to help manage ill health early retirement costs by obtaining an external insurance quotation on behalf of employers.

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### 3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### 3.10 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

# 4 Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position from time to time, i.e. changes in the relationship between asset values and the liabilities value.

# 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

# Appendix

## Appendix A – Regulatory framework

### Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in January 2020 for comment;

b) Comments were requested within 30 days;

c) There was an Employers Forum on 21 January 2020 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2020.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at http://www.croydonpensionscheme.org/
- A copy sent by e-mail to each participating employer in the Fund;
- A full copy included in the annual report and accounts of the Fund;

- Copies made available on request.

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

### A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at http://www.croydonpensionscheme.org/

# Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

### B1 The Administering Authority should:-

1 operate the Fund as per the LGPS Regulations;

2 effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;

3 collect employer and employee contributions, and investment income and other amounts due to the Fund;

4 ensure that cash is available to meet benefit payments as and when they fall due;

5 pay from the Fund the relevant benefits and entitlements that are due;

6 invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;

7 communicate appropriately with employers so that they fully understand their obligations to the Fund;

8 take appropriate measures to safeguard the Fund against the consequences of employer default;

9 manage the valuation process in consultation with the Fund's actuary;

10 provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

11 prepare and maintain a FSS and a ISS, after consultation;

12 notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

13 monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

### B2 The Individual Employer should:-

1 deduct contributions from employees' pay correctly;

2 pay all contributions, including their own as determined by the actuary, promptly by the due date;

3 have a policy and exercise discretions within the regulatory framework;

4 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

5 notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

### B3 The Fund Actuary should:-

1 prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

2 provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3 provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4 prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5 assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

6 advise on the termination of employers' participation in the Fund; and

7 fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

1 investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2 investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;

3 auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

4 governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

5 legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;

6 MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

# Appendix C – Key risks and controls

### Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term. | Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.<br><br>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.<br><br>Analyse progress at three yearly valuations for all employers.<br><br>Inter-valuation roll-forward of liabilities between valuations at whole Fund level. |
| Inappropriate long-term investment strategy. | Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.<br><br>Chosen option considered to provide the best balance. |
| Active investment manager under-performance relative to benchmark. | Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark. |
| Pay and price inflation significantly more than anticipated. | The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.<br><br>Inter-valuation monitoring, as above, gives early warning.<br><br>Some investment in bonds also helps to mitigate this risk.<br><br>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. |

| Risk | Summary of Control Mechanisms |
|---|---|
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. |
| Orphaned employers give rise to added costs for the Fund | The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.<br><br>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9). |
| Effect of possible asset underperformance as a result of climate change | The Fund invests its assets in line with Responsible Investment beliefs and guidelines.<br><br>The impact of different climate change scenarios on future funding positions was modelled at the 2019 valuation, with the risk reflected via the use of prudence within each employers "likelihood of achieving target" (see section 3). |

## C3 Demographic risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Pensioners living longer, thus increasing cost to Fund. | Set mortality assumptions with some allowance for future increases in life expectancy.<br><br>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. |
| Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies. |
| Deteriorating patterns of early retirements | Employers are charged the extra cost of non ill-health retirements following each individual decision.<br><br>Employer ill health retirement experience is monitored, and insurance is an option. |
| Reductions in payroll causing insufficient deficit recovery payments | In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: |

| Risk | Summary of Control Mechanisms |
|---|---|
| | Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).<br><br>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3). |

## C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.<br><br>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation. |
| Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5). | Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis. |
| Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate. |

## C5 Governance risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.<br><br>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations<br><br>Deficit contributions may be expressed as monetary amounts. |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way | The Administering Authority maintains close contact with its specialist advisers.<br><br>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.<br><br>Actuarial advice is subject to professional requirements such as peer review. |
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body. | The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.<br><br>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. |
| An employer ceasing to exist with insufficient funding or adequacy of a bond. | The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.<br><br>The risk is mitigated by:<br><br>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).<br><br>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.<br><br>Vetting prospective employers before admission.<br><br>Where permitted under the regulations requiring a bond to protect the Fund from various risks.<br><br>Requiring new Community Admission Bodies to have a guarantor. |

| Risk | Summary of Control Mechanisms |
|---|---|
| | Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).<br><br>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3). |
| An employer ceasing to exist resulting in an exit credit being payable | The Administering Authority regularly monitors admission bodies coming up to cessation<br><br>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required. |

# Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

### D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

### D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1 meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)

2 at the end of the determined time horizon (see 3.3 Note (c) for further details)

3 with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

### D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

### D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysingmovements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

### D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

# Appendix E – Actuarial assumptions

## E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

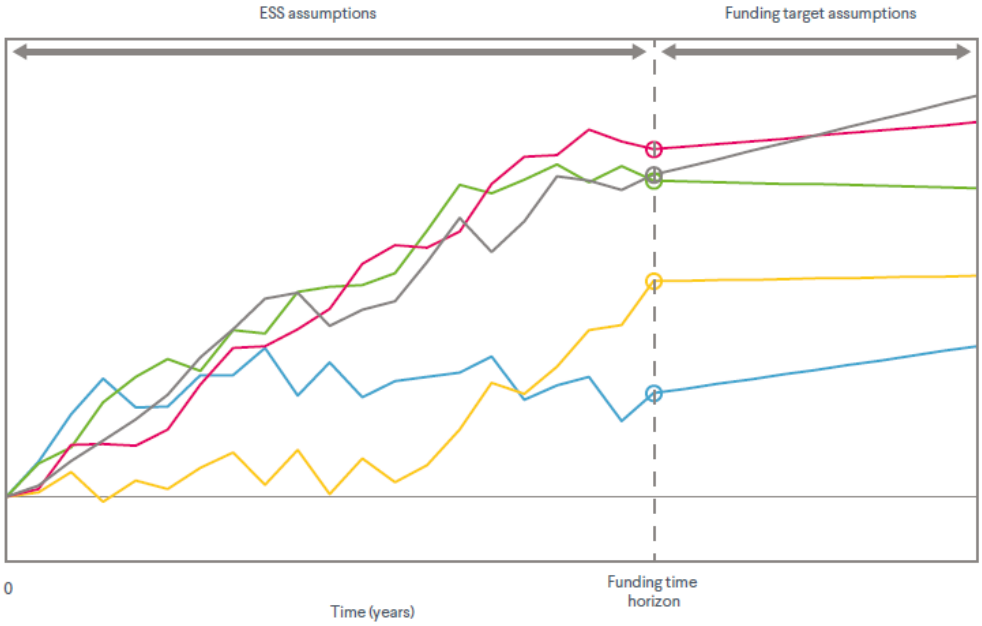
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.




Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

## E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

| | | Annualised total returns | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Cash | Index Linked Gilts (medium) | Fixed Interest Gilts (medium) | UK Equity | Overseas Equity | Property | A rated corporate bonds (medium) | RPI inflation expectation | 17 year real govt bond yield | 17 year govt bond yield |
| 5 years | 16th %'ile | -0.4% | -2.3% | -2.9% | -4.1% | -4.1% | -3.5% | -2.7% | 1.9% | -2.5% | 0.8% |
| | 50th %'ile | 0.7% | 0.5% | 0.3% | 4.0% | 4.1% | 2.4% | 0.8% | 3.3% | -1.7% | 2.1% |
| | 84th %'ile | 2.0% | 3.3% | 3.4% | 12.7% | 12.5% | 8.8% | 4.0% | 4.9% | -0.8% | 3.6% |
| 10 years | 16th %'ile | -0.2% | -1.8% | -1.3% | -1.5% | -1.4% | -1.5% | -0.9% | 1.9% | -2.0% | 1.2% |
| | 50th %'ile | 1.3% | 0.0% | 0.2% | 4.6% | 4.7% | 3.1% | 0.8% | 3.3% | -0.8% | 2.8% |
| | 84th %'ile | 2.9% | 1.9% | 1.7% | 10.9% | 10.8% | 7.8% | 2.5% | 4.9% | 0.4% | 4.8% |
| 20 years | 16th %'ile | 0.7% | -1.1% | 0.1% | 1.2% | 1.3% | 0.6% | 0.7% | 2.0% | -0.7% | 2.2% |
| | 50th %'ile | 2.4% | 0.3% | 1.0% | 5.7% | 5.8% | 4.3% | 1.9% | 3.2% | 0.8% | 4.0% |
| | 84th %'ile | 4.5% | 2.0% | 2.0% | 10.3% | 10.4% | 8.1% | 3.0% | 4.7% | 2.2% | 6.3% |
| | Volatility (Disp) (1 yr) | 1% | 7% | 10% | 17% | 17% | 14% | 11% | 1% | | |

## E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

| Funding basis | Ongoing participation basis | Contractor exit basis | Low risk exit basis |
|---|---|---|---|
| **Employer type** | All employers except Transferee Admission Bodies and closed Community Admission Bodies | Transferee Admission Bodies | Community Admission Bodies that are closed to new entrants |
| **Investment return assumption underlying the employer's funding target (at the end of its time horizon)** | Long term government bond yields plus an asset outperformance assumption (AOA) of 2.4% p.a. | Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund | Long term government bond yields with no allowance for outperformance on the Fund's assets |

## E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

### a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set equal to Consumer Price Inflation (CPI).

This is a change from the previous valuation, where the assumption was CPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

### b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI (Note that the reduction is applied in a geometric, not arithmetic, basis).

### c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will

generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

### d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

# Appendix F – Glossary

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| **Funding basis** | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target. |
| **Administering Authority** | The council with statutory responsibility for running the Fund, in effect the Fund's "trustees". |
| **Admission Bodies** | Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3). |
| **Covenant** | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term. |
| **Designating Employer** | Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund. |
| **Employer** | An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**. |
| **Gilt** | A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return. |
| **Guarantee / guarantor** | A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's. |
| **Letting employer** | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. |
| **LGPS** | The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These |

| | |
|---|---|
| | Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| **Maturity** | A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy. |
| **Members** | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees). |
| **Primary contribution rate** | The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details. |
| **Profile** | The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also. |
| **Rates and Adjustments Certificate** | A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed. |
| **Scheduled Bodies** | Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |
| **Secondary contribution rate** | The difference between the employer's actual and Primary contribution rates. See Appendix D for further details. |
| **Stabilisation** | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. |
| **Valuation** | A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too. |

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# Croydon Council

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| **REPORT TO:** | **Pension Committee**<br>**17 March 2020** |
| **SUBJECT:** | **Risk Management Policy** |
| **LEAD OFFICER:** | **Nigel Cook Head of Pensions and Treasury** |
| **CABINET MEMBER** | **Councillor Simon Hall**<br>**Cabinet Member for Finance and Resources** |
| **WARDS:** | **All** |
| **CORPORATE PRIORITY/POLICY CONTEXT:**<br>Sound Financial Management: This report recommends that the Pension Committee agree the re-adoption of the Fund's existing Risk Management Policy. | |
| **FINANCIAL SUMMARY:**<br>There are no direct financial implications associated with this report. However, financial risks relating to the Pension Fund are substantial and can have an impact on the General Fund of the Council. | |

1. **RECOMMENDATION**

The Committee are recommended to

1.1 Agree to re-adopt the Pension Fund's existing Risk Management Policy.

## 2. EXECUTIVE SUMMARY

2.1 This report updates the Committee on the review of the Fund's Risk Management Policy and recommends its re-adoption.

## 3 DETAIL

3.1. On 5 December 2017 the Committee adopted a Risk Management Policy for the Fund (Minute 4/17 refers).

3.2 The most recent Governance Review of the Fund concluded that this current Risk Management Policy meets all requirements in relation to the CIPFA guidance and hence made no recommendations to include any improvements or amendments in the Action Plan.

3.3 Good practice indicates that the Policy is reviewed at least every three years.

The recommended Policy is attached as Appendix A with the only change from the existing version being the date of adoption in the final paragraph. Members should consult the Governance Review (Aon Hewitt, 2019) for greater detail of the work undertaken and the nature of the review of this Policy.

## 4 FINANCIAL CONSIDERATIONS

4.1 There are no financial considerations arising from this report.

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

## 5. OTHER CONSIDERATIONS

5.1 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

## 6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

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

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

## 7. FREEDOM OF INFORMATION

7.1 Information that is provided to or held in relation to the subject matter of this report shall be processed and disclosed in accordance with the Freedom of Information Act 2000 and Data Protection Act 2018 and other appropriate legislation including the provisions of the General Data Protection Regulations.

## 8 DATA PROTECTION IMPLICATIONS

8.1 Will the subject of the report involve the processing of ‘personal data’?

No.

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

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

**Approved by:** Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

## 9. HUMAN RESOURCES CONSIDERATIONS

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

**Approved by**: Sue Moorman, Director of Human Resources

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**CONTACT OFFICER:**

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

**BACKGROUND DOCUMENTS:**

Governance Review, AON Hewitt, 2019.

**APPENDIX**

Appendix A: Risk Management Policy

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# London Borough of Croydon Pension Fund

## Risk Management Policy

# Risk Management Policy

## Introduction

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

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

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

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

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

## To whom this Policy Applies

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

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

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

## Aims and Objectives

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

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

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

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

### Risk Management Philosophy

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

In managing risk, the Administering Authority will:

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

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

### CIPFA and The Pensions Regulator's Requirements

*CIPFA Managing Risk Publication*

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

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

*The Pensions Regulator's Code of Practice*

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

> *"**249B Requirement for internal controls: public service pension schemes***
>
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
>
> > *(a) in accordance with the scheme rules, and*
> >
> > *(b) in accordance with the requirements of the law.*

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

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

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

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

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

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

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

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

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

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

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

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and The Pensions Regulator's Code of Practice in relation to the Fund. This Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

## Responsibility

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

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

## London Borough of Croydon Pension Fund Risk Management Process

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


### *1. Risk Identification*

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

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

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

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

### *2. Risk Analysis & Evaluation*

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

**Risk Matrix**

**IMPACT**

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

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

### *3. Risk Response*

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

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

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

### *4. Risk Monitoring & Review*

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

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

### *5. Risk Reporting*

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

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

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

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

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

## Key risks to the effective delivery of this Policy

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

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

## Costs

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

## Approval, Review and Consultation

This Policy was approved at the London Borough of Croydon Pension Committee meeting on 17 March 2020. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

## Further Information

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

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

E-mail - nigel.cook@croydon.gov.uk
Telephone - 020 8726 6000

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

# Croydon Council

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| **REPORT TO:** | **Pension Committee**<br>**17 March 2020** |
| **SUBJECT:** | **Knowledge and Skills Policy** |
| **LEAD OFFICER:** | **Nigel Cook Head of Pensions and Treasury** |
| **CABINET MEMBER** | **Councillor Simon Hall**<br>**Cabinet Member for Finance and Resources** |
| **WARDS:** | **All** |

**CORPORATE PRIORITY/POLICY CONTEXT:**

Sound Financial Management: Ensuring that the management of the Pension Fund is given appropriate guidance and direction through the governance of the Pension Committee.

**FINANCIAL SUMMARY:**

There are no direct financial implications associated with this report. However, the implications of decisions taken by the Committee for the Revenue Account of the Council can be significant.

## 1. RECOMMENDATION

1.1 The Committee are recommended to:

1.2 Agree the attached Knowledge and Skills Policy, (Appendix A) and Adopt the CIPFA Knowledge and Skills Framework, (Appendix B).

## 2. EXECUTIVE SUMMARY

1.3 This report sets out the steps required to bring current practices in regards to training in line with the actions suggested by the Governance Review.

## 2 DETAIL

2.1 From time to time the Committee have considered training matters, most recently at their meeting on 9 May 2019 when they received a report entitled “Training Support for Pension Committee” (Minute 22/19 refers) and noted:

- the requirement of the Chartered Institute of Public Finance and

Accounting [CIPFA] guidance for key skills for successful public sector scheme administration; and

- the channels for accessing training.

2.2 However, in the Governance Review, Aon Hewitt make reference to Guidance provided by CIPFA, the Local Government Pension Scheme Advisory Board (SAB) and The Pensions Regulator (tPR) and concluded that:

*It appears that all key elements are considered in relation to the Local Pension Board (SAB and TPR), but we are unable to verify this in relation to the wider requirements in line with the CIPFA guidance. Although some information is contained within the Fund's Training Log, we were advised that the original decisions were made at a Pension Committee meeting in 2010 and those papers are no longer publicly available.*

*We would therefore recommend that a single Fund Knowledge / Training Policy is created standardising the approach for all Fund stakeholders in accordance with the SAB and CIPFA requirements and that this is formally approved and adopted by the Committee and Board.*

2.3 In the agreed Action Plan arising from the Review it has been agreed that the Fund would:

*Introduce a Pension Fund "Knowledge and Skills Policy" clarifying expectations for all those involved with the governance of the Fund (i.e. the Pensions Committee, Pension Board and Senior Officers).*

1.1. The Committee are recommended to agree the attached Knowledge and Skills Policy, and formally adopt the CIPFA Knowledge and Skills Framework.

## 2. FINANCIAL CONSIDERATIONS

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

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

## 3. OTHER CONSIDERATIONS

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

## 4. COMMENTS OF THE SOLICITOR TO THE COUNCIL

4.1. The Head of Litigation and Corporate Law comments that there are no direct legal implications arising from the recommendations within this report.

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

## 5. FREEDOM OF INFORMATION

5.1. Information that is provided to or held in relation to the subject matter of this report shall be processed and disclosed in accordance with the Freedom of Information Act 2000 and Data Protection Act 2018 and other appropriate legislation including the provisions of the General Data Protection Regulations.

## 6. DATA PROTECTION IMPLICATIONS

6.1. Will the subject of the report involve the processing of 'personal data'?

No.

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

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

**Approved by:** Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

## 7. HUMAN RESOURCES CONSIDERATIONS

7.1. There are no direct workforce implications arising from the recommendations within this report but developing a knowledge and skills policy is good practice.

**Approved by**: Sue Moorman, Director of Human Resources

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**CONTACT OFFICER:**

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

**BACKGROUND DOCUMENTS:**

Governance Review, Aon Hewitt;
CIPFA Guidance on Knowledge and Skills Framework

**APPENDICES**

**Appendix A**: Knowledge and Skills Policy

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**Appendix A**

# LONDON BOROUGH OF CROYDON PENSION FUND

# KNOWLEDGE AND SKILLS / TRAINING POLICY

## Introduction

This is the Knowledge and Skills / Training Policy (Policy) of the London Borough of Croydon Pension Fund (Fund) which is managed and administered by the Council. The Policy details the training strategy for members of the Pension Committee, the Pension Board and officers involved in the management of the Fund.

The Council has delegated responsibility for the implementation of this Policy to the Director of Finance, Investment and Risk (Section 151).

Following the introduction of Markets in Financial Instruments Directive (MiFID II) legislation in January 2018, financial institutions can no longer categorise a local authority as a "per se professional client". Instead, a local authority must be classified as a "retail client" *unless* opted up by the financial institutions to "elective professional client" status. To attain professional status a Fund, as a collective, must be able to demonstrate sufficient expertise, experience and knowledge to satisfy financial institutions that it is capable of making investment decisions and understanding the nature of potential risks. This Policy assists the Fund in ensuring that levels of expertise, experience and knowledge are maintained to satisfy the MiFID II requirements.

## Aims and objectives

The Fund's "governance" objectives are set out in its Governance Policy Statement and prominent amongst them is that:

- All officers and Pension Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

All members and officers to whom this Policy applies are expected continually to demonstrate their personal commitment to training and to ensuring that the knowledge and skills objective is met.

To assist in achieving the objective the Fund will aim to comply with:

- CIPFA Knowledge and Skills Frameworks;
- Knowledge and skills requirements of the Public Service Pensions Act 2013; and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

## CIPFA and TPR Knowledge and Skills Requirements

In January 2010 CIPFA launched technical guidance for Representatives on Pensions Committees and non-executives in the public sector contained in a knowledge and skills

framework. The Framework detailed the knowledge and skills required by those responsible for pension scheme financial management and decision making in the public sector.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills framework. The new Framework details the knowledge and skills required by Pension Board members to enable them properly to exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013. This guidance increases the emphasis on Pensions legislation and governance and highlights Pensions Administration as a new and separate area of knowledge and skills.

The Framework covers eight areas of knowledge and skills identified as the core requirements:

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

The two primary roles of the Framework are:

- To enable the organisation to determine whether they have an adequate skills mix to meet their financial needs; and
- To allow individuals to assess their training needs, measure their progress and plan their development

In 2016 CIPFA issued Investment Pooling Governance Principles for LGPS Administering Authorities, incorporating competencies relating to pooling in the LGPS. As regards training the key requirements are that Administering Authorities:

- Clearly articulate the knowledge and skills requirements in a Fund policy;
- Provide ongoing training in an effective and suitable manner to meet those requirements;
- Regularly review whether knowledge aspirations are being met; and
- Ensure that they rely appropriately on officers and advisers to provide expert knowledge

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme (LGPS) administering authorities:

- Formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme);
- Ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme); and
- Publicly report how these arrangements have been put into practice each year.

**The Pensions Act 2004 and the Pensions Regulator's Code of Practice**

Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to be conversant with the rules of the LGPS and any document recording policy about the administration of the LGPS; and have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the LGPS Local Pension Board.

These requirements have been incorporated and expanded on within The Pensions Regulator's Code of Practice 14 *Governance and administration of public service pension schemes*, effective from April 2015. Guidance has been issued by the Local Government Pension Scheme Advisory Board which details how these requirements relate to LGPS administering authorities. A Knowledge and Skills requirements document has been produced to meet these requirements **(Annex A).**

**The Pensions Regulator's Code of Practice 14: Governance and Administration of Public Service Pension Schemes**

This Code details the documents that pension board members need to be conversant with.

In paragraphs 42 to 44 the Code states:

*For pension board members of funded pension schemes, documents which record policy about the administration of the scheme will include those relating to funding and investment matters. For example, where relevant they must be conversant with the statement of investment principles and the funding strategy statement. Pension board members must also be conversant with any other documented policies relating to the administration of the scheme. For example, where applicable, they must be conversant with policies relating to:*

- *the contribution rate or amount (or the range/variability where there is no one single rate or amount) payable by employers participating in the scheme;*
- *statements of assurance (for example, assurance reports from administrators);*
- *third party contracts and service level agreements;*
- *stewardship reports from outsourced service providers (for example, those performing outsourced activities such as scheme administration), including about compliance issues scheme annual reports and accounts;*
- *accounting requirements relevant to the scheme;*
- *audit reports, including from outsourced service providers; and*
- *other scheme-specific governance documents.*

**CIPFA Principles of Investment Decision Making and Disclosure**

In response to the Government's report updating the Myners Principles, LGPS Administering Authorities are required to prepare and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are included in the Investment Strategy Statement. The six principles are:

- Effective decision making
- Clear objectives
- Risk and liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

## Measuring and Monitoring Requirements

### Evaluation

On appointment, and annually thereafter, Pension Board and Pension Committee members will be asked to complete a competency self-assessment matrix. This will highlight skills gaps or areas for further development. The results of this will be used to inform the development of the training plan.

Training programmes will be flexible, allowing Board and Committee members to update particular areas of learning where required and acquire new areas of knowledge in the event of any changes or developments.

Members need to commit sufficient time to complete their learning needs.

A report will be presented to the Pension Committee on an annual basis setting out:

- The training provided/attended in the previous year at an individual level;
- Commentary on how this compares to the Training Plan; and
- Any actions required, such as a review of the Training Plan.

This information will also be included in the Fund's Annual Report and Accounts.

Pension Committee members and Pension Board members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as an annual summary of the events attended.

Training will be a standing item on all Board and Committee meeting agendas.

In order to identify whether the objectives of this Policy are being met, the Administering Authority will maintain a training log which records attendance at training and compares this to the Training Plan.

### Delivery

Training and developments support will be delivered through a variety of methods including:

- The Pensions Regulator's on-line toolkit;
- Free subscription to The Pensions Regulator's news by email service;

- Pension Committee and Board training items at meetings;
- Specific training sessions either internally developed or shared with other funds;
- Fund manager training;
- Investment Advisor and Actuary training;
- London CIV training;
- On-line facilities;
- Reading materials; and
- Personalised training.

Where appropriate, training will be provided jointly for the Board, Committee and officers.

**Initial information and induction process**

On joining the Pension Committee, the Pension Board or on appointment as a senior officer, individuals will be provided with the following Fund documentation:

- Members guide to the LGPS;
- Latest Actuarial Valuation report;
- Annual Report and Accounts;
- Funding Strategy Statement;
- Governance Policy and Compliance Statement;
- Investment Strategy Statement including the Fund's statement of compliance with the Myners Principles;
- Communications Policy;
- Discretionary Policies; and
- This Training Policy;

Induction training will be arranged on appointment.

### Demonstrating knowledge and understanding

The Council will maintain records of the learning of individual Board and Committee members and the Board and Committee as a whole. This will assist members in demonstrating their compliance with their legal requirements and how risks associated with knowledge gaps have been mitigated. The training log for 2018/19 is published with the Fund's Annual Report.

### Costs

Any cost involved in providing training will be met directly by the Fund.

## Key Risks

### Nature of the Risks

The key risks to the delivery of this Policy are outlined below. The Pension Committee members, with the assistance of the Pension Board and senior officers, will monitor these and other key risks and consider how to respond to them.

- Changes in Pension Committee and/or Pension Board membership and/or senior officers potentially diminishing knowledge and understanding;

- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members and/or other senior officers resulting in a poor standard of decision making and/or monitoring;
- Insufficient resources being available to deliver or arrange the required training; and
- The quality of advice or training provided not being of an acceptable standard

**How the Risks will be Measured / Monitored**

The Risk Register has been adopted by the Pension Committee and Pension Board and will be reviewed at alternate meetings of each.

## Consultation

A Governance review was carried out by Aon Hewitt and a report making recommendations was published on 30 May 2019. An action plan was approved by the Pension Committee on 11 February 2020, together with a recommendation to review progress on delivery of the plan in 12 months. This Policy addresses the recommendations made in the Review as follows:

- To introduce a policy covering the Pension Board, The Pension Committee and senior officers.
- Have regard to the work with the London CIV
- Be supported by training with reference to the CIPFA guidance
- Should include a list of documents that the Board, Committee and senior officers should conversant with. **(Annex A)**
- Link with training needs assessment and monitoring; all members and senior officers should complete the TPR toolkit.
- Implement a training plan and annual assessment
- Introduce Induction training
- Consider further training opportunities including external events
- Maintaining an up to date training log

## Approval, Review and Effective Date

The updated Pension Board Training Policy was approved by the Board at their meeting of 17 October 2019. This document will incorporate the CIPFA Local Pension Boards Framework and encompass the Pension Committee and senior officers.

This Policy will be formally reviewed and updated every three years or sooner if the training arrangements or other matters included within it merit reconsideration.

It will be considered at the Pension Committee meeting of 17 March 2020 and the Pension Board meeting of 2 April 2020.

## Roles and Responsibilities

The Council has delegated responsibility for the implementation of this policy to the Director of Finance, Investment and Risk (Section 151).

The Implementation, assessment and management of the Training Plan will be carried out by the Governance and Compliance Manager, reporting to the Head of Pensions and Treasury.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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