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Pension Committee Agenda

To: Councillor Andrew Pelling (Chair)
Councillor Clive Fraser (Vice-Chair)
Councillors Simon Brew, Jan Buttinger, Robert Canning, Pat Clouder and Yvette Hopley

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

Reserve Members: Luke Clancy, Nina Degrads, Steve Hollands, Karen Jewitt, Caragh Skipper and Robert Ward

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 14 September 2021** at **10.00 am** in **Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX**

ASMAT HUSSAIN
Executive Director of Resources and Monitoring Officer (Interim)
London Borough of Croydon
Bernard Weatherill House
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Monday, 6 September 2021

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

If you require any assistance, please contact the person detailed above, on the righthand side.

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

To approve the minutes of the meeting held on 16 March 2021 as an accurate record *(to follow)*.

The minutes of the meeting held on 25 May 2021 will not be available for approval.

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. Pension Fund Governance: the Admission Policy, the Bulk Transfer Policy and the Policy for Employers Leaving the Fund (Pages 5 - 32)

This report explains rationale for the Committee to agree an "Admission Policy," a "Bulk Transfer Policy" and a "Policy for Employers Leaving the Fund".

6. **Review of Breaches Log** (Pages 33 - 44)

This report presents the current Breaches Log.

7. **Government Actuary's Department - Section 13 Analysis of LGPS 2019 Actuarial Valuation** (Pages 45 - 54)

The purpose of this report is to summarise and update the Pensions Committee on the initial results provided by the Government Actuary's Department under section 13 of the Public Service Pensions Act 2013.

8. **Croydon Pensions Administration Team Key Performance Indicators for the Period 1 May 2021 to 31 July 2021** (Pages 55 - 68)

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 July 2021.

9. **Reporting and Monitoring Contributions 2020/21** (Pages 69 - 72)

This report updates the Committee on the monitoring and payment of contributions by employers into the Pension Fund.

10. **Review of Risk Register** (Pages 73 - 80)

This report presents the current pension fund risk register.

11. **Pension Fund Environmental, Social and Governance Policy** (Pages 81 - 106)

This report sets out a framework to ensure that the Croydon Pension Fund adopts an Environmental, Social and Corporate Governance policy that is appropriate and a set of goals that are achievable.

12. **Progress Report for Quarter Ended 30 June 2021** (Pages 107 - 110)

This report has been prepared, in addition to the commercially sensitive appendices, to inform the Committee's discussions.

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

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

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

PART B

14. Progress Report for Quarter Ended 30 June 2021 (Appendices to Item 12) (Pages 111 - 182)

Two commercially sensitive appendices are attached, in relation to Item 12 on the agenda.

REPORT TO:	**Pension Committee** **14 September 2021**
SUBJECT:	**Pension Fund Governance: the Bulk Transfer Policy and the Policy for Employers Leaving the Fund**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. **RECOMMENDATION**

The Committee are asked to:

1.1 Agree the "Bulk Transfer Policy" and the "Policy for Employers Leaving the Fund" as attached as appendices B and C.

2. EXECUTIVE SUMMARY

2.1 This Report explains rationale for the Committee to agree a "Bulk Transfer Policy" and a "Policy for Employers Leaving the Fund" and recommends these documents to the Committee for approval accordingly.

3 DETAIL

3.1 In accordance with Schedule 2 of the Local Government Pension Scheme Regulations 2013 (as amended) membership of the Scheme as administered by the Council is allowed for two types of employer – "Scheme Employers" and "Admission Bodies."

3.2 "Scheme Employers," such as the Council and academy trusts, must provide automatic admission into the Scheme for all their eligible employees.

3.3 "Admission Bodies" which, subject to strict conditions, provide services or assets to a Scheme employer, can provide access to the Scheme through an admission agreement.

3.4 New employers can choose not to seek membership of the Scheme but they need to offer employees transferred from the Scheme, membership of a certified "broadly comparable" pension scheme.

3.5 The review of the Fund's Governance arrangements recommended that the Committee:

- *Consider whether to introduce admission and bulk transfer policies, to provide greater detail and expand on some of the areas in the Funding Strategy Statement (FSS); and*
- *Update the "Policy for employer leaving the Fund" in line with exit credit legislation.*

3.6 A bulk transfer is the transfer of a group of members from one pension scheme (the transferring scheme) to another (the receiving scheme). The transferring scheme will make a transfer payment to the receiving scheme, covering all of the transferring members. The transferring members will cease to be entitled to benefits in the transferring scheme and will become entitled to benefits under the receiving scheme.

3.7 Appendix B is the recommended basis for the bulk transfer of staff into and out of the Scheme subject to various different circumstances including:

- Transfers between schemes with actuarially equivalent benefits (Club schemes);
- Transfers between broadly comparable schemes; and
- Inter fund transfers (transfers between Local Government Pension Schemes).

3.8 An admission agreement terminates if the employer ceases to be an admission body or the last active members leave employment or opt out of the Fund. Appendix C is a recommended updated “Policy for Employers Leaving the Fund” in which the main features of the financial arrangements are described in detail.

3.9 The Committee are recommended to agree:

(i) the Bulk Transfer Policy (Appendix B)
(ii) the Policy for Employers Leaving the Fund (Appendix C)

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

4.1 There are no financial considerations arising from this report.

Approved by: Nigel Cook, Head of Pensions and Treasury on behalf of Richard Ennis, Acting Director of Finance, Investment and Risk, S151 Officer

5. LEGAL CONSIDERATIONS

5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance and Deputy Monitoring Officer that the Local Government Pension Scheme Regulations 2013/2356 (“the Regulations”) govern such matters as admission to the Local Government Pension Scheme (LGPS), transfers and leaving the pension fund.

5.2 In seeking to establish polices governing the above referenced areas, the Council must ensure that it complies with the relevant provisions within the Regulations and shall have regard to statutory guidance. Non-statutory guidance has also been published with covers these areas and regard ought also to be had to such non-statutory guidance.

5.3 Regulations 3 to 8 of the Regulations set out the rules for eligibility for membership and the different categories of member. Part 2 of the Regulations sets out provisions relating to the administration of the Scheme. Regulations 96 to 103 set out provisions relating to transfers between funds. Schedule 2 to the Regulations sets out who can be Scheme employers and makes provision relating to admission agreements between employers who are not listed within the Schedule and administering authorities and Schedule 3 to the Regulations sets out who must maintain a fund for the Scheme, and is thus an administering authority and contains provision identifying who is the appropriate administering authority for the employees of any particular Scheme employer.

5.4 Regulation 64 makes provision in relation to requirements on employers who leave the LGPS and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014/525, under regulation 25A gives the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time.

5.5 Under provisions in the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) [SI 2006/246], the pay, and terms and conditions of employment for transferred employees are protected, preventing these entitlements from being changed without agreement. The Transfer of Employment (Pension Protection) Regulations 2005 [SI 2005/649] covers the pension and contribution arrangements for employees to which a TUPE transfer applies.

5.6 Section 101 and 102 of the Local Government Act 2003 makes provision for staff transfer matters generally and in relation to pensions in particular (section 102) and provides that Directions may be made by the Secretary of State in this regard with which the Council needs to comply. Best Value Authorities Staff Transfer (Pensions) Direction 2007 has been made by the Secretary of State under this authority and provides that a Best Value authority must secure pension protection for each TUPE transferring employee, which must be the same as, broadly comparable to, or better than, those they had a right to acquire prior to the transfer.

5.7 Where relevant, regard should also be had to the non-statutory New Fair Deal guidance issued by the Government Actuaries Department in October 2013 which applies to applies to central government departments, agencies, the NHS, certain maintained schools (including academies) and any other parts of the public sector under the control of government ministers, where staff are eligible to be members of a public service pension scheme. The new policy applies when such staff move from the public sector to an independent contractor by way of a transfer to which TUPE applies or when such staff move by way of a non voluntary transfer to a public service mutual or to other new models of public service delivery. The reformed policy generally does not apply to staff transfers from local authorities and other best value authorities (as listed in section 1 of the Local Government Act 1999).The New Fair Deal sets out how pensions' issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services, including how this pertains to pensions.

5.8 Further legal consideration will be required on the implementation of the recommendations in the report.

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

6. HUMAN RESOURCES IMPACT

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

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

7. EQUALITIES IMPACT

7.1 There are no equalities impacts arising from this report.

8. ENVIRONMENTAL IMPACT

8.1 There are no environmental impacts arising from this report.

9. CRIME AND DISORDER REDUCTION IMPACT

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

10. DATA PROTECTION IMPLICATIONS

10.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**
NO

Has a data protection impact assessment (DPIA) been completed?
NO

10.2 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

APPENDICES:

Appendix A – Bulk Transfer Policy
Appendix B – Policy for Employers Leaving the Fund

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Bulk Transfer Policy Croydon Pension Fund

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the Fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

This Policy was approved by Croydon Pension Committee

This Policy will be reviewed every 3 years in line with the review of the Funding Strategy Statement (FSS) or sooner following any legislative changes within the review period or applicable statutory guidance.

Aims and Objectives

The Fund's objectives related to this policy are as follows:

• transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and

• bulk transfers received must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case by case basis.

When considering any circumstances where bulk transfer provisions might apply, however, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007) and non-statutory Fair Deal requirements.

Risks

These are specific risks relating to Bulk Transfers. Regard should also be had to the Fund's Risk Register which is reported to Committee quarterly.

Risk to the solvency of the Fund where the value of the payment in respect of bulk transfers in does not cover the corresponding liabilities transferred in.

Risk to member benefits where the value of the payment in respect of bulk transfers in does not cover the corresponding liabilities transferred in.

Risk to the solvency of the Fund where the value of the payment in respect of bulk transfers out exceeds the corresponding liabilities transferred out.

Risk to member benefits where the value of the payment in respect of bulk transfers out exceeds the corresponding liabilities transferred out.

Bulk transfer circumstances

Bulk transfers into and out of the Fund can occur for a variety of reasons, namely:

• where an outsourcing arrangement is entered into and active scheme members leave the LGPS to join a broadly comparable scheme;

• where an outsourcing arrangement ceases and active scheme members re-join the LGPS from a broadly comparable scheme;

• where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);

• where there is a reorganisation or consolidation of local operations (bought about by, for example, local government shared services, college mergers or multi academy trust consolidations); or

• a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding transfers (including bulk transfers) to and from the scheme, and include the following:

• Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement;

• Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value;

• Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment must be granted their request. For members with non-Club accrued rights the LGPS Fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.

• Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all "Best Value Authorities" in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

• requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and

• provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

New Fair Deal, introduced in October 2013, applies to academies and multi academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result it would not be expected the Fund would have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi academy trusts.

Note: For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies), – who are not subject to the requirements of Best Value Direction or New Fair Deal - there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services, although any successful contractor is free to seek admission body status in the Fund, subject to complying with the Administering Authority's requirements (e.g. having a bond or guarantor in place).

The old Fair Deal policy may still apply to a specific staff transfer if permitted by the new Fair Deal policy or if outside the coverage of the new Fair Deal policy. (if the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the Administering Authority would not expect to pay out more than individual cash equivalent transfer amounts, in accordance with appropriate Government Actuary Department (GAD) guidance.

Statement of Principles

The Administering Authority's policy is drafted on the basis of the following key principles:

• Where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits;

• Ordinarily the Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the value of the liabilities). The Fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer (e.g. the use of gilts where unsecured liabilities are being left behind, or where transfer terms are subject to commercial factors).

This Statement of Principles 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.

Notes to bulk transfer policy

There may be situations where a transfer amount accepted in respect of a transfer in is less than is required to fully fund the transferred in benefits on the Fund's ongoing basis. In such cases the Fund reserves the right to require the receiving employer to fund this deficit (either by lump sum or increase in ongoing employer contributions) ahead of the next formal valuation.

Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.

For transfers out, in exceptional circumstances the Fund's policy allows for specific issues of the transferring employer (e.g. the cessation of the transferring scheme employer) to be taken into consideration at the discretion of the Administering Authority and will need to be authorised by the relevant person as laid down in the scheme of delegation detailed in the Governance and Compliance Statement as required under regulation 55.

Format of transfer payment

Ordinarily payment will be in cash, with delegation to the relevant person as laid down in the scheme of delegation detailed in the Governance and Compliance Statement as required under regulation 55 to agree alternative methods of paying this sum.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme. Staff time involved on the Fund side will be charged at the rate defined within the Administration Strategy Statement.

Impact on transferring employer

Any transfer of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring authority how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover this relative change in deficit, for example where the deficit is a large proportion of the total remaining notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

Approval process

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether to pay or receive a bulk transfer.

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to.

Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

Policy Summary

The following table sets out a summary of the various scenarios for the transfer in to and out of the Fund, together with the Administering Authority's policies relating to bulk transfers. In the remainder of this section this Policy sets out the Administering Authority's policies in relation to a number of subsidiary areas associated with bulk transfers.

Terms referred to

Club Memorandum - (document issued by the Cabinet Office describing arrangements for transferring accrued pension rights to and from schemes participating in the Public Sector Transfer Club)

https://lgpsregs.org/timelineregs/UK%20Wide%20Guidance/PSTC-MemoMar2015.pdf

Government Actuary Department (GAD) Guidance

https://www.gov.uk/guidance/staff-transfers-public-service-pension-schemes#gad-staff-transfers

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/299397/LGPS_EW_Transfer_Guidance_2014_March_2014.pdf

Cash Equivalent Transfer Value (CETV) The amount of the lump sum that will be required to provide an equivalent pension to the scheme pension at your retirement age. This lumps sum is then reduced (discounted) depending upon how far away from retirement that you are. The scheme makes various assumptions in order to calculate the cash equivalent transfer value.

Scenario		Bulk transfer mechanism	Policy	Methodology
Machinery of Government from a Club Scheme	In	Club Memorandum (see above note)	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
	Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.
Broadly Comparable scheme **Or** **Machinery of Government where scheme is treated as a non-Club scheme**	In	GAD guidance (see above note) < 2 members – GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance Cash equivalent transfer values in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transferring formulae. The transfer value paid to the receiving scheme will be calculated in line with the Cash Equivalent Transfer Value (CETV) transfer-out formulae.

	Out	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the value of the liabilities). Discretion exists to amend this to reflect specific circumstances of the situation.
Scenario		**Bulk transfer mechanism**	**Policy**	**Methodology**
Inter-fund transfer (transfer between the Fund and another LGPS Fund)	In	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	On receipt of a transfer value (calculated in line with the **CETV transfer out formulae**), the Fund will award the member a pension credit on a day-for-day basis.
		10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the transferring Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer an amount calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation. Pension credits will

				be awarded to the transferring members on a day-for-day basis.
	Out	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
		10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation

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HYMANS ROBERTSON

London Borough of Croydon Pension Fund

Policy for Employers Leaving the Fund

September 2021

PUBLIC SECTOR

1 Introduction

This is the policy of the London Borough of Croydon Pension Fund ("the Fund") as regards the treatment of employers leaving the Fund.

It has been prepared by the Administering Authority to the Fund, Croydon Council, in collaboration with the Fund's actuary, Hymans Robertson LLP. This policy replaces all previous policies on employer termination and is effective from

These procedures and policies apply to employers participating in the Fund.

1.1 Regulatory Framework

The Local Government Pension Scheme Regulations 2013 as amended ("the 2013 Regulations") outline the general framework for employees and employers participating in the Local Government Pension Scheme in England and Wales. The regulations that are relevant to employers leaving the Fund are as follows;

Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the rates and adjustments certificate to be amended to show the revised contributions due from the ceasing employer

- Regulation 64 (2) – where an employing authority ceases to be a Scheme Employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the rates and adjustments certificate to be amended to show the exit payment due from the ceasing employer or, the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the Administering Authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:

  (a) Notify its intention to make a determination to-

    (i) The exiting employer and any other body that has provided a guarantee to the exiting employer

    (ii) The Scheme Employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement

  (b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the Administering Authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the Administering Authority must have regard to the following factors-

  (a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)

  (b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions

  (c) Any representations to the Administering Authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and

  (d) Any other relevant factors

- Regulation 64 (2A) – the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate Scheme employer or remaining Fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.

In addition to the 2013 Regulations summarised above, the Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time.

These regulations relate to all employers in the Fund.

1.2 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employers leaving the Fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

2 Principles

2.1 Overriding Principles

When an employer ceases active participation in the Fund, the default position of the Fund is that a cessation valuation will be carried out and that pass-through* provision will not be enabled.

**An arrangement between a contracting local authority and a service provider that is an Admitted Body to the LGPS. As the LGPS is a defined benefit scheme, the employer's contribution rate will vary depending on the profile of the workforce and the value of the fund's assets.*

Under a pass-through arrangement, the contracting authority and service agree a fixed rate for the employer's contribution rate. If this amount varies, the service provider can recover the amount of any increase from the contracting authority through an adjustment to the contract price.

If, in exceptional circumstances, a ceasing employer wishes to enter into discussions around pass-through provision, staff time involved on the Fund side will be charged at the rate defined within the Administration Strategy Statement. Additionally any agreement on this will be at the discretion of the administering authority and will need to be authorised by the relevant person as laid down in the scheme of delegation detailed in the governance and compliance statement as required under regulation 55.

The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund. Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Fund will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. The Fund will also pursue any bond or indemnity provider and guarantor, for payment where appropriate.

It is the Fund's policy that the determination of any surplus or deficit on termination should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

Section 4 of this document sets out the bases currently in use for cessation valuations. These bases may be updated or withdrawn at the discretion of the Administering Authority on the advice of the Fund Actuary and will expire no later than 31 March 2023.

2.2 Interaction with Funding Policy

It is the Fund's policy that each employer is responsible for the funding of all Fund benefits of its own members, including current and previous employees. The Funding Strategy Statement ("FSS") sets this out in more detail and addresses the issue of cross-subsidies between employers. Any cessation valuation will be carried out using assets and liabilities allocated to the employer at the last triennial valuation as a starting point. This position will be updated to allow for membership movements and market conditions as at the cessation date.

The cessation valuation for any employer leaving a pool will be based on the funding position of the pool as a whole at the cessation date.

Note h of section 3.3 of the Funding Strategy Statement sets out funding policy for admission bodies leaving the Fund.

2.3 Principles for Determining Payment

Croydon Council will determine the deficit / surplus attributable to the employer on cessation having taken actuarial advice.

If an employer is aware that it will be leaving the Fund in future, it should alert the Administering Authority and request a valuation under Regulation 64 (4). If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate.

Exit Credits

Regulation changes around policy on payments of exit credits came into force with effect from 20 March 2020. Subsequent changes regarding flexibility around employer cessation debts and flexibility for Funds to carry out interim valuations and/or review employer contributions between formal valuations came into force with effect from 23 September 2020.

The FSS has therefore been updated to allow for the Fund's policy on applying these new discretions on determining the payment of exit credits. The following summarises the proposed approach:

Exiting employers should be assessed on a case-by-case basis, and be subject to the principles set out in the revised FSS in order to consistently apply the discretion in assessing the amount of and in paying any exit credit.

In the first instance, the onus is on the exiting employer (and any letting/guaranteeing employer) to provide representations on how they consider any exit credit should be treated.

However, in all cases, the Fund considers that the maximum value of any exit credit is the surplus identified in the Fund Actuary's exit valuation on the exit basis appropriate to the cessation event/employer.

The approach differentiates by the type of body involved. This is a result of Admission bodies being able to terminate their participation in the Fund at any time. On the other hand, Scheduled bodies do not have this ability.

In general, where an admission agreement began prior to 14 May 2018 (the date when exit credits became allowable under the Regulations), the Fund will not pay an exit credit as the potential for an exit credit would not likely have been priced into tenders for service.

Where guarantees, pass-through and risk sharing agreements are clearly set out in admission terms, the Fund will reflect these in its determination. In particular, no exit credit will be payable to any admission body which participates in the Fund via a pass through agreement.

Where pass through or risk sharing agreements are not applicable, the Fund will generally limit any exit credit to the value of employer contributions paid over the employer's contract allowing for investment returns on those contributions. The Fund will ask the actuary to carry out this calculation alongside the cessation valuation. (Noting that a proportionate approach to this calculation may have to be taken when an employer has participated in the Fund over a long period and historic contribution information may not be readily available.)

Deficit at exit

If it is determined that there is a deficit and the employer is required to make a payment to the Fund, the Administering Authority will advise the employer of the amount required.

The Fund's policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund, where possible. The Fund may consider permitting an employer to spread the payment over an agreed period where it considers that this does not pose a material risk to the solvency of the Fund.

If the payment is to be spread, the Administering Authority will consult with the Actuary to determine the appropriate payments to be made.

Despite the updates for an employer ceasing with a deficit the normal policy within the FSS remains the requirement to pay any debt immediately.

Any variation away from this would be considered in the light of this benchmark and would primarily need to be in the interests of the Fund.

However, the FSS updates allow the Fund to be mindful of the broader objectives and finances of the employer when considering a more flexible exit arrangement.

For example, a flexible approach may in some cases still be appropriate where the employer covenant is weak as it may allow the employer to avoid building up further liabilities.

When entering into any flexible exit arrangement, a continual but proportionate review of the conditional elements will be required to ensure it remains appropriate and in the best interests of all parties.

Greater detail on these arrangements is laid down in the Funding Strategy Statement which should be read in conjunction with this policy.

These flexible exit arrangements will be at the discretion of the administering authority in consultation with the Fund Actuary and will need to be authorised by the relevant person as laid down in the scheme of delegation detailed in the governance and compliance statement as required under regulation 55.

In the normal course of events (i.e. where the process below has been adhered to), the outgoing body will not be exposed to interest rate, investment or other funding risks after the cessation date. The final deficit payment may be calculated by the addition of interest at the level of the base rate between the cessation date and the final payment date(s). Exceptions to this may be made where the Fund is not advised of the employer having left the Fund within a reasonable time period.

3 Process

3.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment);
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency; and
- provide all other information and data requirements as requested by the Administering Authority which is relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

3.2 Responsibilities of Administering Authority

The Administering Authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation;
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation; and
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.);
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation;
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus;

- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership; and
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

3.3 Responsibilities of the Actuary

Following commission of a cessation valuation by the Administering Authority, the Fund Actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy;
- provide actuarial advice to the Administering Authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation; and
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

4 Cessation Valuation basis

The following bases will apply from 1 April 2020 to 31 March 2023 the date by which the next valuation is signed off, unless otherwise withdrawn or updated by the Administering Authority on the advice of the Fund Actuary.

4.1 Gilts Discount Rate

The annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index as at the date of cessation, rounded to the nearest 0.1% per annum. (see Appendix 2 of the 2019 Actuarial Valuation Report – Projection of assets and benefit payments)

4.2 Ongoing Discount Rate

The annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index plus 2.0% per annum (calculated geometrically) at the date of cessation, rounded to the nearest 0.1% per annum. (see Appendix 2 of the 2019 Actuarial Valuation Report- Projection of assets and benefit payments)

4.3 Pension Increases

The pension increase assumption is determined in line with the Consumer Prices Index (CPI). The CPI assumption is based on the assumption for the Retail Prices Index (RPI) less 0.8% per annum.

RPI is calculated as the geometric difference between the annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index and the annualised gross redemption yield on the FTSE Actuaries Over 15 Years Index-Linked Gilts (3% Inflation) Index as at the cessation date, rounded to the nearest 0.1% per annum. (see Appendix 2 of the 2019 Actuarial Valuation Report- salary and benefit increases)

4.4 Salary Increases (Where Applicable)

As determined in the most recent valuation of the Fund, salary increases are assumed to be in line with CPI (see Appendix 2 of the 2019 Actuarial Valuation Report- salary and benefit increases)

4.5 Post-Retirement Mortality

Post-retirement mortality for all members is determined in line with Club Vita analysis which is carried out on behalf of the Fund at the triennial formal valuation. These are a bespoke set of Vita Curves that are specifically tailored to the individual membership profile of the Fund. Future improvements are in line with CMI Projections assuming the current rate of improvements has reached a ‘peak’ and that a long term rate of 1.25% per annum will apply.

Further details are set out in the most recent formal valuation report of the Fund.

Under the gilts cessation basis, an allowance is made for further improvements to life expectancies. (see Appendix 2 of the 2019 Actuarial Valuation Report)

4.6 Other Demographic Assumptions

As set and outlined in the report on the most recent formal valuation of the Fund. (see Appendix 2 of the 2019 Actuarial Valuation Report)

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REPORT TO:	**Pension Committee** **14 September 2021**
SUBJECT:	**Review of Breaches Log**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION

1.1 The Committee is asked to note the contents of the Pension Fund Breaches Log and to comment as appropriate.

2. EXECUTIVE SUMMARY

2.1 It is a requirement of The Pension Regulator for the Pension Fund to maintain a breaches log detailing incidences where breaches have occurred. In line with the recommendations of the Aon Hewitt Governance Review, on 15 September 2020 the Committee agreed the revised Reporting Breaches of the Law Policy. This included a requirement for the Committee to monitor breaches on a regular basis. This report presents the current log (Appendix A) for the Committee's consideration.

3 DETAIL

3.1 The Pension Act 2004 (PeA 2004, s 70) imposes duties on certain persons to report breaches of the law as follows:

70 Duty to report breaches of the law

(1) Subsection (2) imposes a reporting requirement on the following persons—
(a) a trustee or manager of an occupational or personal pension scheme;

(b) a person who is otherwise involved in the administration of such a scheme;

(c) the employer in relation to an occupational pension scheme;

(d) a professional adviser in relation to such a scheme;

(e) a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

(2) Where the person has reasonable cause to believe that—

(a) a duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions, he must give a written report of the matter to the Regulator as soon as reasonably practicable.

(3) No duty to which a person is subject is to be regarded as contravened merely because of any information or opinion contained in a written report under this section. This is subject to section 311 (protected items).

(4) Section 10 of the Pensions Act 1995 (c. 26) (civil penalties) applies to any person who, without reasonable excuse, fails to comply with an obligation imposed on him by this section. In line with this legislation the Pensions Regulator requires that a Breaches Log is maintained by the Fund. In their Governance Review Aon Hewitt recommended that the log was reviewed regularly by the Pension Committee. It was last reviewed on 25 May 2021. The current log is attached (Appendix A).

3.2 In this context a breach of the law is "an act of breaking or failing to observe a law, agreement, or code of conduct." In the context of the LGPS this can encompass many aspects of the management and administration of the LGPS, including failure:

- to do anything required under the Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- to comply with policies and procedures (e.g. the Fund's statement of investment principles, funding strategy, discretionary policies, etc.);
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time or non-compliance with the Code.

3.3 Since the Committee last reviewed the Log 2 new entries have been added. These are in respect of non-payment of refunds of contributions due and failure to publish the Fund accounts for 2019/20.

3.4 The Committee is asked to note the contents of the Breaches Log and to comment.

4. CONSULTATION

4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the Breaches Log which forms the basis of

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Interim Director of Law and Governance that the Pension Committees role is to ensure the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations ("the Regulations") all other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.

6.2 Section 70 of the Pensions Act 2004 ('the Act') imposes a requirement on the following persons ('reporters') to report breaches of the law as it applies to the management and administration of the pension fund:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such an occupational or
- personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an
- occupational or personal pension scheme in relation to the scheme.

6.3 The duty is to report the matter to The Pensions Regulator in writing as soon as is reasonably practicable where that person has reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to The Pensions Regulator

6.4 Under the Act a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

6.5 In addition, under the Pensions Regulator's Code: Reporting breaches of the Law, the Pensions Regulator has responsibility for regulatory oversight of the governance and administration of public service pension schemes, including the Local Government Pension Scheme (LGPS). The Pensions Regulator has published guidance in the Code of Practice no 14 (Governance and administration of public service pension scheme ('the Code'). Paragraphs 241 to 275 of the Code deal with reporting breaches of the law.

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Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Interim 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: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the 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 matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

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

BACKGROUND DOCUMENTS:
None

APPENDIX:
Appendix A: Breaches Log

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Date	Category	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to the breach	Reported/Not reported (with justification if not reported and dates)	Traffic light colour	Outcome of report and or investigations	Outstanding actions	Comments
01-Oct-17	Administration Immaterial	Failure of the scheme employer (not the Council) to obtain a report from a Registered Medical Practitioner (IRMP). Failure of employer to decide whether to refer the employee to an Independent IRMP and to make a decision on their entitlement under reg 35. Failure to notify the member of any decisions made.	Failure of the employer to follow the correct procedures in relation to the LGPS has prevented timely and appropriate action under the regulations.	Member contacted the Pensions Team on 9 April 2015. Deferred benefits sent out 26 April 2017. Internal Dispute Resolution Procedure application received on 19 January 2018.	The matter was referred to the Pensions Ombudsman. No referral has been made to The Pensions Regulator.		Stage 1 complaint upheld on 1 May 2018. Compensation payment of £500.00 made 28 March 2019 for failure to notify benefits within required timescales. Stage 2 complaint upheld on 1 November 2019. Pension Ombudsman has closed the case as the member has now settled with her employer.		
Aug-19	Administration	Failure to produce 100% of Annual Benefit Statement notifications	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Error reports identified members without statements which the technical team checked. Some had not required a statement as they had not passed an increase date. The remainder had the issues resolved and statements were sent out.	the matter was not referred to the Pensions Regulator. All the issues were identified through error reports and resolved. Statements were sent to all individuals where a statement was required. No further action was needed.		Not reported. Only 3.36% for active and 2% for deferred members not issued. The issues are being addressed so that notifications can be sent.		

Aug-20	Administration	Failure to produce 100% of Annual Benefit Statement notifications	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Error reports identified members without statements which the technical team checked. There was an error suppressing ABS for members over age 65 and under NPA. The technical team issued 98.69% of the statements due. They are continuing to work on the remainder.	The matter was not referred to the Pensions Regulator. All the issues were identified through error reports and are being resolved. Statements have been or are being sent to all individuals where a statement was required.		Not reported. Only 2.12% for active and 0.27% for deferred members not issued. The issues are being addressed so that notifications can be sent.		
Jan-21	Administration	**Failure to inform 100% of scheme members of their calculated benefits (refund or deferred) – backlog cases**	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Historical backlog is impacting performance. Hymans Robertson have been engaged to provide administration services to clear this backlog,	The issue has been identified and action taken to rectify it. Outsourcing the historical backlog provides greater administrative capacity , mitigting the risk of recurrence. This has therefore been judged as not necessary to report to the Pensions Regulator.		Not reported to The Pensions Regulator.		
Sep-21	Administration	Failure to pay a refund of scheme contributions to members of the pension fund, who left after the 01 April 2014 with less than two years membership, within 5 years of leaving (regulation 18(5) of the LGPS Regulations 2013). Current number of cases as at 31 August 2021 is 240	Possible tax implications for the member if the refund is paid after 5 years. Burden of administration resources to repeatedly chase members.	Administration team use last known address or email address provided by the employer to send details to former members making them aware of their options and the 5 year deadline when leaver calculation processed. A quarterly check of the LGPS NI database is made to see if an automatic transfer is due to another LGPS fund. Reports run quarterly to find those approaching 5 year period/age 75 – admin team to try to make contact again – address searches carried out if required.	The matter has not been reported to the Pension Regulator. The fund has made all reasonable efforts to trace and inform members of their options. The fund is reliant on members responding in order to comply with the regulations. The Fund's approach is in line with Technical Group recommendations (see Technical Group minutes 28 September 2018)		N/A		https://www.lgpslibrary.org/assets/minutes/TG20180928.pdf

Sep-21	Finance	Failure of the Fund to publish the Fund Accounts for year 2019/20 by 30 September 2020.	Lack of accurate data available on which to base funding requirements. This could result in insufficient funds to pay all benefit liabilities.	The accounts have been prepared and submitted to audit for approval. However Audit have still not finished their work in preparing their opinion. The Head of Pensions is in regular contact with Audit to check on progress.	The matter has not been reported to the Pension Regulator. Progress has been delayed due to the issuing of the Section 114 notice applicable to Croydon and, more widely, to the impact of the Covid 19 pandemic. Many other LGPS Funds have been unable to finalise their accounts due to the impact of the pandemic. The failure to sign off the accounts does not relate to a failure on the part of the Fund to produce them but with delays in the audit process which is beyond the control of the Fund. The breach has been rated as green but a view on this is welcomed from Members.		N/A	Head of Pensions to continue to liaise with Audit on progress	

Rating	Description	Breach occurred		Breach identified		Action taken	Decision	
	Cause, effect, reaction and wider implications considered together ARE LIKELY to be of material significance	Error has occurred	PLUS	Errors not recongnised	PLUS	No action taken to rectify and tackle the cause	MUST Report to TPR	
	Cause, effect, reaction and wider implications considered together MAY be of material significance	Error has occurred	PLUS	Errors rectified	PLUS	Systemic causes not addressed so issue may arise again	MAY Report to TPR	Consider the evidence and make a decision.
	Cause, effect, reaction and wider implications considered together ARE NOT Likely to be of material significance	Error has occurred	PLUS	Errors rectified	PLUS	Systemic causes addressed to mitigate against issue arising again	DON'T Report to TPR	

Breaches Process

Type of Breach	Timescale for reporting	Internal actions	Further actions
Urgent and Material	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is reported immediately to The Pensions Regulator	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report urgent and material breaches to Section 151 officer, Chair and Vice Chair of Committee and Local Pension Board. Full report to be submitted at the next available meeting
Non urgent: Assess whether Material / Immaterial	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is considered and if deemed necessary it is reported to the Pensions Regulator within 30 days	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report breach at next Pension Committee and Pension Board meeting
Immaterial	Responsible officer informs Head of Pensions and Treasury and the governance team within 30 days	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report immaterial breach at next Pension Committee and Pension Board meeting

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REPORT TO:	**PENSION COMMITTEE** **14 September 2021**
SUBJECT:	**Government Actuary's Department – Section 13 Analysis of LGPS 2019 Actuarial Valuation**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments is in line with their benchmark and within the assumptions made by the Actuary.	
FINANCIAL SUMMARY: This report considers the 2019 Actuarial Valuation of the Croydon Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

1.1 The Committee are asked to consider and note the contents of this report

1 EXECUTIVE SUMMARY

1.1 The purpose of this report is to summarise and update the Pensions Committee on the initial results provided by the Government Actuary's Department (GAD) under section 13 of the Public Service Pensions Act 2013 ("Section 13"). The final report should be available in autumn.

2 DETAIL

2.1 Section 13 of the Public Service Pensions Act 2013 requires a review of LGPS Actuarial Valuations. The GAD has been commissioned by the Ministry for Housing, Communities and Local Government (MHCLG) to carry out a review of all LGPS 2019 local funding valuations. This analysis is primarily to help provide comparison of actuarial valuation results across the 88 funds in the LGPS in England and Wales.

2.2 This GAD analysis is very analytical and presents various metrics in a "like-for-like" fashion (i.e. with local funding assumptions removed), so that reasonable comparisons can be made between LGPS funds. Section 13 requires GAD to ascertain whether each local fund valuation has achieved the following aims:

- The valuation complies with the LGPS regulations;
- The valuation has been carried out in a way which is not inconsistent with other local fund valuations;
- The valuation has set employer rates that ensure the solvency and the long-

term cost efficiency of the Fund.

2.3 Hymans Robertson, the Scheme's Actuary submitted data and information regarding the 2019 valuation on the Fund's behalf to GAD in May 2020 and GAD have used this data to carry out their analysis. GAD's draft two-page initial results summary for the Fund can be found as an attachment to the Scheme Actuary's report in Appendix A.

2.4 The initial results for Croydon (this is a draft report) give the Fund a clean bill of health for every metric, with no 'red flags' being raised. In summary:

- Using the LGPS Scheme Advisory Board standard 'best estimate' assumptions adopted by GAD for the analysis, the Fund is better funded at 31 March 2019 (98%) than it was at 31 March 2016 (81%).
- The funding position (on the same actuarial assumptions) relative to its peers has increased from 81st to 72nd (of the 88 English and Welsh Funds).
- The investment return the Fund requires on its assets to achieve full funding in 20 years' time has reduced from 4.0% to 3.5% p.a. (i.e. all else being equal, the Fund is better placed to meet the benefits promised to members and is relying less on the return expected to be generated from its assets).

2.5 The initial draft results had an amber flag under "Deficit Recovery Plan". This flag is a result of GAD's analysis indicating that the overall average employer contribution rate to the Fund reduced at the 2019 valuation, whilst the "deficit recovery end point" has increased (i.e. while the longest time horizon or deficit recovery period used in the Fund reduced from 22 to 20 years, this end point still increased from 2038 to 2039). However, the Scheme Actuary raised concerns on this metric and GAD have subsequently removed this flag in the draft of the final report.

2.6 There are currently no actions for the Fund. GAD had recently circulated a draft final version of their report to the Fund Actuaries for comment and have asked that this is not shared with other LGPS stakeholders (including the funds themselves). GAD have indicated that the final report will be published in the autumn.

3 CONSULTATION

3.1 Officers have fully consulted with the Pension Fund's Scheme Actuary in preparing this report.

4 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

4.1 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.

Approved by: Nigel Cook, Head of Pensions and Treasury on behalf of Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

5 LEGAL CONSIDERATIONS

5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that Section 13 of the Public Service Pensions Act 2013 provides for among other things, the following:
Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—
(a) the solvency of the pension fund, and
(b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

5.2 For that purpose, scheme regulations must require actuarial valuations of the pension fund and subsection (4) provides that where an actuarial valuation under subsection (3) of Section 13 has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—
(a) the valuation is in accordance with the scheme regulations;
(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);
(c) the rate of employer contributions is set as specified in subsection (2).

5.3 A report under subsection (4) of Section 13 must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.

5.4 If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—
(a) the report may recommend remedial steps;
(b) the scheme manager must—
(i) take such remedial steps as the scheme manager considers appropriate, and
(ii) publish details of those steps and the reasons for taking them;
(c) the responsible authority may—
(i) require the scheme manager to report on progress in taking remedial steps;
(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Interim 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: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the 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

11.2 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

---

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

BACKGROUND DOCUMENTS:
None

Appendices
Appendix A: *London Borough of Croydon Pension Fund: Section 13 - Analysis of LGPS 2019 Actuarial Valuations, Hymans Robertson.*

Section 13 - Analysis of LGPS 2019 Actuarial Valuations

Purpose and Scope

This paper has been commissioned by and is addressed to Croydon Council in its capacity as Administering Authority to the London Borough of Croydon Pension Fund ("the Fund"). Its purpose is to summarise and update the Fund's Pensions Committee on the initial results provided by the Government Actuary's Department (GAD) under section 13 of the Public Service Pensions Act 2013 ("Section 13").

Background

As required under Section 13, GAD has been commissioned by MHCLG to carry out a review of all LGPS 2019 local funding valuations. This analysis is primarily to help provide comparison of actuarial valuation results across the 88 funds in the LGPS in England and Wales.

This GAD analysis is very analytical and presents various metrics in a "like-for-like" fashion (i.e. with local funding assumptions removed), so that reasonable comparisons can be made between LGPS funds. Section 13 requires GAD to ascertain whether each local fund valuation has achieved the following aims:

- The valuation **complies** with the LGPS regulations
- The valuation has been carried out in a way which is not in**consistent** with other local fund valuations
- The valuation has set employer rates that ensure the **solvency** and the **long-term cost efficiency** of the fund

We previously submitted data and information regarding the 2019 valuation on the Fund's behalf to GAD and they have used this data to carry out their analysis. GAD's draft two-page initial results summary for the Fund can be found in the Appendix.

Croydon 2019 initial results

Initial results

The Fund has received a clean bill of health for every metric, with no 'red flags' being raised. In fact, based on the final figures (which are not publicly available yet), the Fund received a green flag in every test.

In summary:

- Using the LGPS Scheme Advisory Board standard 'best estimate' assumptions adopted by GAD for the analysis, the Fund is better funded at 31 March 2019 (98%) than it was at 31 March 2016 (81%).
- The funding position (on the same actuarial assumptions) relative to its peers has increased from 81st to 72th (of the 88 English and Welsh Funds).
- The investment return the Fund requires on its assets to achieve full funding in 20 years' time has reduced from 4.0% to 3.5% p.a. (i.e. all else being equal, the Fund is better placed to meet the benefits promised to members and is relying less on the return expected to be generated from its assets).
- You may notice that the initial draft results had an amber flag under "Deficit Recovery Plan". This flag is a result of GAD's analysis indicating that the overall average employer contribution rate to the Fund reduced at the 2019 valuation, whilst the "deficit recovery end point" has increased (i.e. while the longest time horizon or deficit recovery period used in the Fund reduced from 22 to 20 years, this end point still increased from 2038 to 2039). However, we voiced our concerns on this metric and are pleased to say that GAD have subsequently removed this flag in the draft of the final report.

This positive picture provides an independent check that validates the Fund's strong funding strategy and the progress which has been made by the Fund in recent years.

Property Transfer Arrangement

GAD have raised questions about the Fund's proposed property transfer arrangement with Croydon Council. In particular, it points out the need for appropriate governance arrangements for any asset transfers in lieu of future contributions. While this arrangement is not currently in place between the Fund and Council, GAD may add general comment in their final report about their view of such arrangements in the LGPS.

Next steps

- There is currently no action for the Fund, and we would not expect any required actions when the final LGPS Section 13 report is published.
- At the time of writing, GAD had recently circulated a draft final version of their report to the Fund Actuaries for comment and have asked that this is not shared with other LGPS stakeholders (including the funds themselves).
- GAD have indicated that the final report will be published in "Autumn".

Reliances and limitations

This paper has been prepared for the Fund for the purpose of updating the Fund's Pensions Committee on the initial results provided by the Government Actuary's Department (GAD) under section 13 of the Public Service Pensions Act 2013. It has not been prepared for use for any other purpose and should not be so used. We accept no liability where the paper is used for any other purpose.

The paper is not addressed to any third party. We accept no liability where the paper is used by a third party unless we have expressly accepted such liability in writing.

This paper complies with Technical Actuarial Standard TAS 100 (Principles for Technical Actuarial Work) to a proportionate and relevant degree.

Prepared by:-

Robert McInroy

Richard Warden

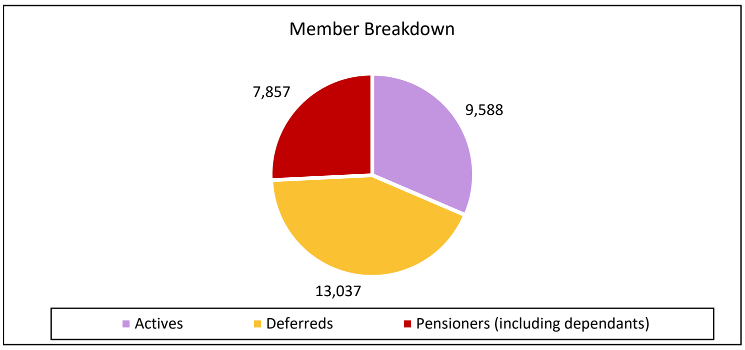
Fellows of the Institute and Faculty of Actuaries

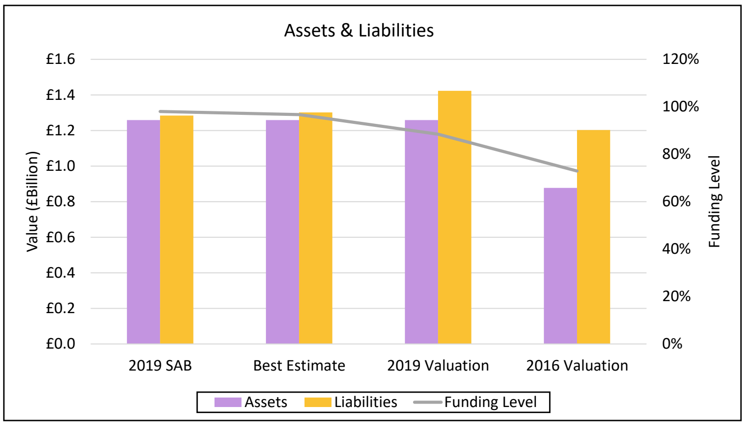
For and on behalf of Hymans Robertson LLP

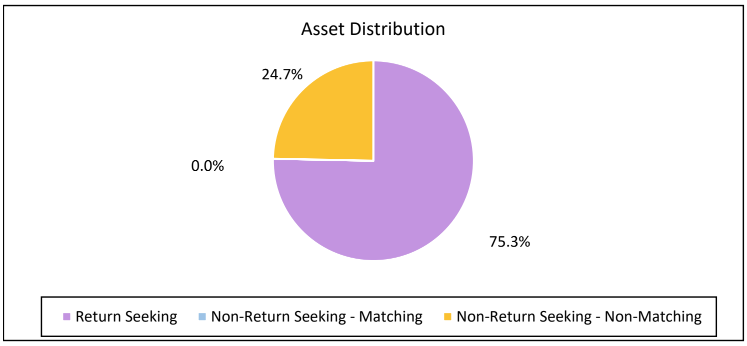
August 2021

Appendix – Schedule of 2019 draft Section 13 results

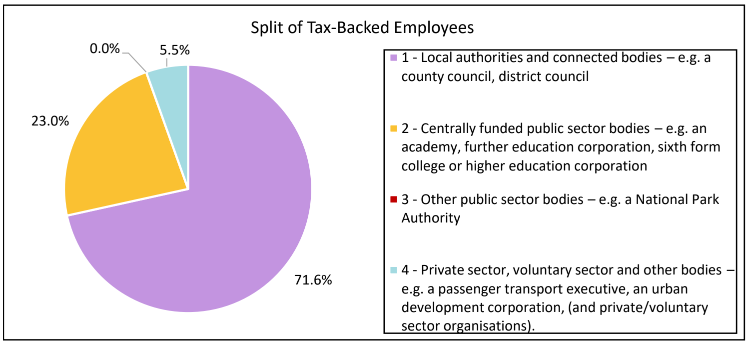
London Borough of Croydon Pension Fund

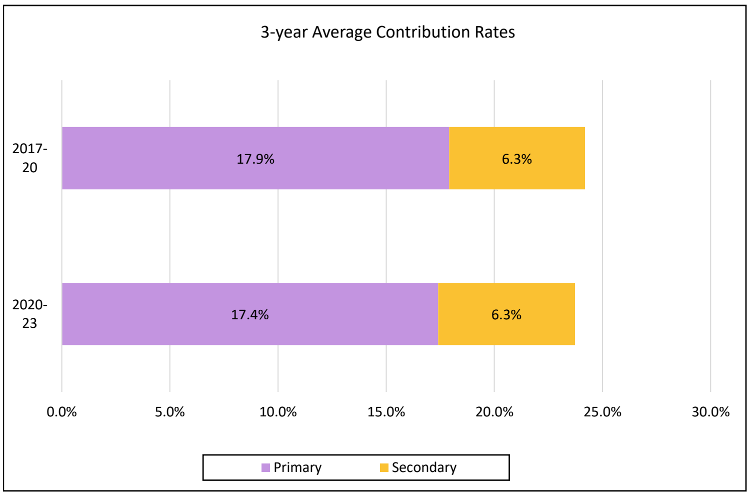


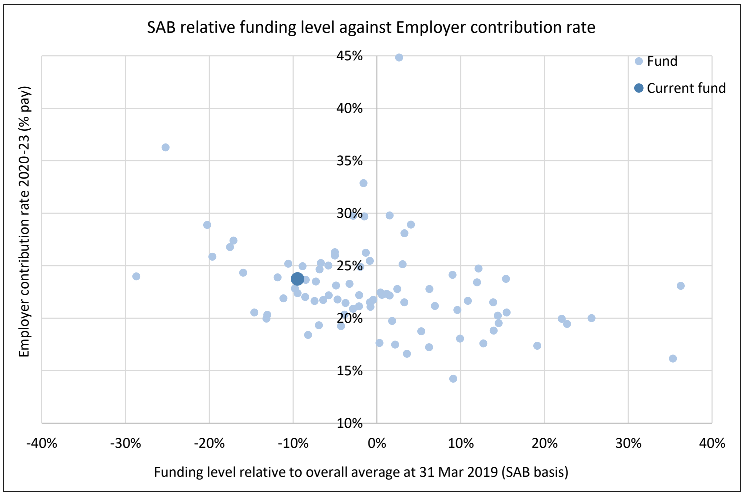




Local Authority	Core Spending (£m)	Core Spending (%)
Total	**£367.5**	**100.0%**
Croydon	£274.0	74.6%
Croydon GLA	£93.5	25.4%







At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the standards we apply.

Government Actuary's Department

This document is intended only for discussions between GAD, the relevant Local Authority and their actuary

London Borough of Croydon Pension Fund

Solvency Breakdown

Asset Shock

Assets are divided into the following classes:
Return seeking - Equity, Property, Infrastructure debt & other return seeking assets
Non-return seeking - All other assets
Return seeking assets are stressed by reducing them by 15%
New deficit allocated to tax−raising authorities
= (Pre−stress asset value − Post−stress asset value) × % Tax backed employees
This deficit is then spread over 20 years of annual payments, and compared to the fund's core spending

	£m
Pre-stress asset value	£1,258.2
Return seeking assets	£947.7
Non-return seeking assets	£310.5
Post-stress asset value	£1,116.0
Return seeking	£805.5
Non-return seeking	£310.5
Percentage of tax-backed employees (Group 1 + Group 3)	71.6%
New deficit allocated to tax raising authorities	£101.7
Annual deficit payment (spread over 20 years)	£5.5
Total core spending (pensionable payroll used where core spending unavailable)	£367.5
Deficit percentage of core spending	1.5%
Deficit percentage of core spending (allowing for post-asset shock surplus)	1.5%

Liability Shock

Non-matched liabilities are stressed by increasing them by 10%
New deficit allocated to tax−raising authorities
= (Post−stress liability value − Pre−stress liability value) × % Tax backed employees
Deficit is spread over 20 years and compared to the fund's core spending

	£m
Liability value pre-stress (GAD's best estimate calculation)	£1,301.1
Liability value post-stress	£1,431.3
New deficit allocated to tax raising authorities	£93.1
Annual deficit Payment (spread over 20 years)	£5.0
Deficit percentage of core spending	1.4%
Deficit percentage of core spending (allowing for post-liability shock surplus)	1.4%

Employer Default Shock

Determine funding level on GAD's best estimate basis
If the fund is in deficit, non-tax backed deficits are allocated to tax-backed
The non-tax backed deficit is spread over 20 years and compared to the fund's core spending

	£m
Deficit on best estimate basis	£43.0
Proportion of deficit allocated to non-tax raising authorities	£2.4
Annual deficit payment (spread over 20 years)	£0.1
Deficit percentage of core spending	0.0%
Fund Open/Closed	Open
SAB Funding Level	98.0%
Percentage of Non-Statutory Employees (Group 3 + Group 4)	5.5%

Long Term Cost Efficiency

Deficit Recovery Period

Implied deficit recovery period calculated on a standardised market consistent basis

Recovery period (years)	4
Ranking of fund (out of 87 funds)	70

Required Return

Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

Required return under best estimate basis	3.5%
Ranking of fund (out of 87 funds)	60

Repayment Shortfall

Difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis

Annual deficit recovery payment as % of implied 31 March 2019 payroll	1.2%
Actual contribution rate paid less SCR on best estimate basis	6.0%
Difference	4.8%

Return Scope

Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Expected return	4.4%
Required return	3.5%
Difference	0.9%
Ranking of fund (out of 87 funds)	56

Deficit Recovery Plan

Consideration of how the deficit recovery plan has changed compared to 2016 valuation

Valuation	*2016*	*2019*
Deficit Recovery End Point	2038	2039
2017-20 Average Contribution Rate		24.2%
2020-23 Average Contribution Rate		23.7%
Increase in contributions		
Difference in Average Contribution Rate between 2017-20 and 2020-23		-0.5%
Increase in deficit recovery end point (years)		1

Minor inconsistencies in totals may occur due to rounding.

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REPORT TO:	**PENSION COMMITTEE** **14 September 2021**
SUBJECT:	**Croydon Pensions Administration Team Key Performance Indicators for the Period** **1 May 2021 to 31 July 2021**
LEAD OFFICER:	**Vicki Richardson** **Head of HR & Finance Service Centre**
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON: 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 Poor administration may ultimately lead to incorrect calculation or payment of benefits or indeed financial penalties.	

1. RECOMMENDATIONS

1.1 The Committee is recommended 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 July 2021.

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 May 2021 to 31 July 2021. 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 There has been an extraordinary demand on the pension administration team over the last few months due to a Council wide voluntary severance scheme.

3.3 As priority was given to the voluntary severance scheme to ensure that scheme members had timely information at this critical time, resources were diverted away from other case types. In addition to the retirement estimates the team have met legal deadlines for processing retirements and deaths which are also of key importance to scheme members.

3.4 At end July 2021 there were 5778 workflow tasks outstanding which is a 4% decrease on the previous month. 44% of the outstanding tasks relate to a historical backlog of deferred benefit cases.

3.5 Hymans Robertson have been engaged to clear the outstanding tasks relate to a historical backlog of deferred benefit cases. The high level project plan is shown as Appendix B. As at 5 August Hymans had completed 152 cases with a further 49 having been calculated, ready for quality checking. Due to resources needing to be redirected to support the Council's voluntary severance scheme the number of new deferred benefit cases for leavers outstanding has increased over the last few months. We have recruited a new Pension Officer starting in September who will be solely focussing on this case type. The number of tasks outstanding and performance in this area will continue to be closely monitored.

3.6 A pension support officer has been recruited and is focussing solely on new starters for the next few months. As at end July 2021 the number of outstanding tasks for new starters was 134, compared with 530 at end April 2021.

3.7 In addition to normal casework the team are also processing year end data received from employers in preparation for the issue of Annual Benefit statements by 31 August 2021.

3.8 During July, we successfully recruited to the 3 vacancies of Team Leader, Senior Pension Officer and Pension Officer. Two of the positions were filled through internal promotion which has created further vacancies for a Pension Officer and Senior Pension Officer. Recruitment activity for these positions will start in September.

3.9 The latest development on the McCloud ruling in the LGPS is the Written Ministerial Statement from the LGPS Minister Luke Hall who made a statement on 13 May 2021 confirming the key elements of the changes to the LGPS regulations in order to implement the McCloud remedy. LGPS regulations are expected to come into force from 1 April 2023. Whilst draft regulation are not expected until later in the year we are actively investigating options for resourcing the required data gathering exercise.

3.10 Member self-service take up as at end June 2021 was 27%, which is an increase of 2% compared with June 2021.

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.

Approved by: Nigel Cook, Head of Pensions and Treasury on behalf of Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Interim 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 Interim 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

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Croydon Pensions Admin Team Performance Report, March 2021

Croydon Pensions Admin Team

Performance Report

July 2021

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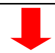
Contents

Reference Key Table

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

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
		May 2021		June 2021		July 2021			
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	268	31.34%	172	45.35%	116	65.52%		We have a pension support officer who is focussing soley on new starters for the next few months to keep on top of ongoing demand for processing new starters. Whilst the % achieved in the legal deadline is below target this is as a result as a large number of old cases being processed. The total amount of new starters outstanding decreased from 530 at end April to 134 at end July.
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)	85	62.35%	101	44.55%	132	42.42%		Historical backlog has now been passed to Hymans Robertson for processing. As old cases are processed this will impact on performance against target. Due to resources needing to be redirected to other priority areas of work performance on new cases has been impacted. We have recruited a new Pension Officer is starting in September who will be solely focussing on this case type. Number of tasks outstanding will continue to be monitored

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
		May 2021		June 2021		July 2021			
To process and pay a refund	Two months from the date of request	8	100%	9	100%	18	100%		
Obtain transfer details for transfer in, calculate and provide quotation to member	Two months from the date of request	2	100%	1	100%	1	100%		.
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	44	100%	78	100%	53	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	89	100%	70	97.14%	72	100%		

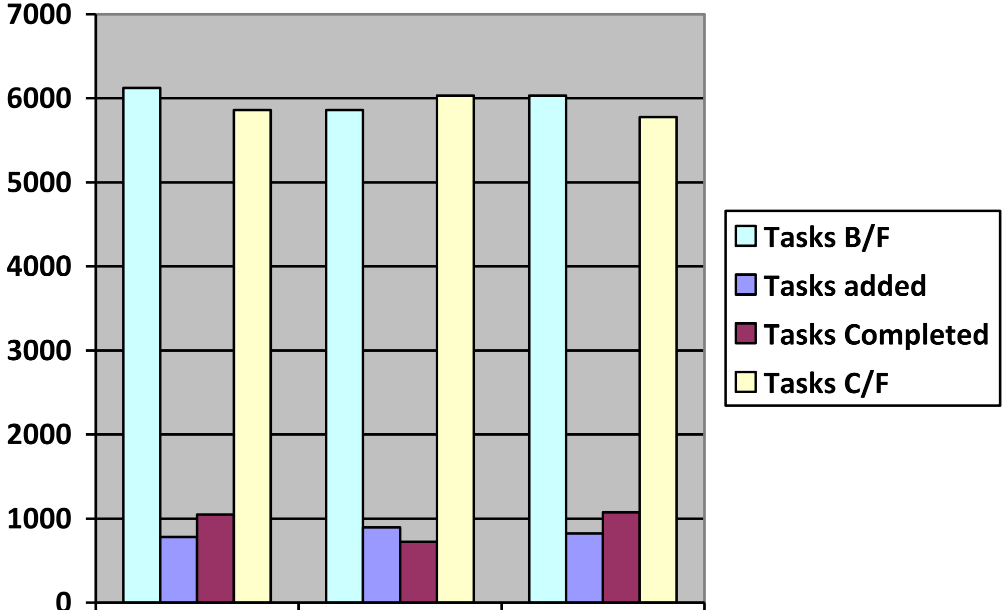
Process	Legal Requirement	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Total Number Completed	% Achieved in legal deadline	Direction of Travel	Comments
		May 2021		June 2021		July 2021			
Calculate and notify (dependent(s) of amount of death 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)	36	100%	21	100%	16	100%		
Provide all active and deferred members with annual benefit statements each year	By 31st August								

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
		May-21			June 2021			July 2021				
Send a notification of joining the LGPS to a scheme member	30 days from date of notification of joining member	268	31.34%	97	172	44.77%	47	116	62.07%	59	⬆	We have a pension support officer who is focussing soley on new starters for the next few months to keep on top of ongoing demand for processing new starters. Whilst the % achieved in the legal deadline is below target this is as a result as a large number of old cases being processed. The total amount of new starters outstanding decreased from 530 at end April to 134 at end July.
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)	85	62.35%	208	101	44.55%	298	132	41.67%	471	⬇	Historical backlog has now been passed to Hymans Robertson for processing. As old cases are processed this will impact on performance against target. Due to resources needing to be redirected to other priority areas of work performance on new cases has been impacted. We have recruited a new Pension Officer is starting in September who will be solely focussing on this case type. Number of tasks outstanding will continue to be monitored

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
		May-21			June 2021			July 2021				
To process and pay a refund	40 working days from the date of request	8	100%	9	9	100%	7	18	100%	3		
Obtain transfer details for transfer in, calculate and provide quotation to member	40 working days from the date of request	2	50%	7	1	100%	1	1	100%	1		During May one case was not processed within target timescale, taking 45 days.
Notify the amount of retirement benefits	20 working days from date of retirement	44	100%	3	78	100%	3	53	100%	2		
Provide a retirement quotation on request	15 working days from date of request	89	93.26%	5	70	92.19%	8	72	95.83%	3		In July there were 2 cases not processed within team target with the longest case taking 17 days.
Calculate and notify (dependent(s) of amount of death benefits	20 working days from receipt of all information	36	100%	6	21	100%	11	16	100%	4		

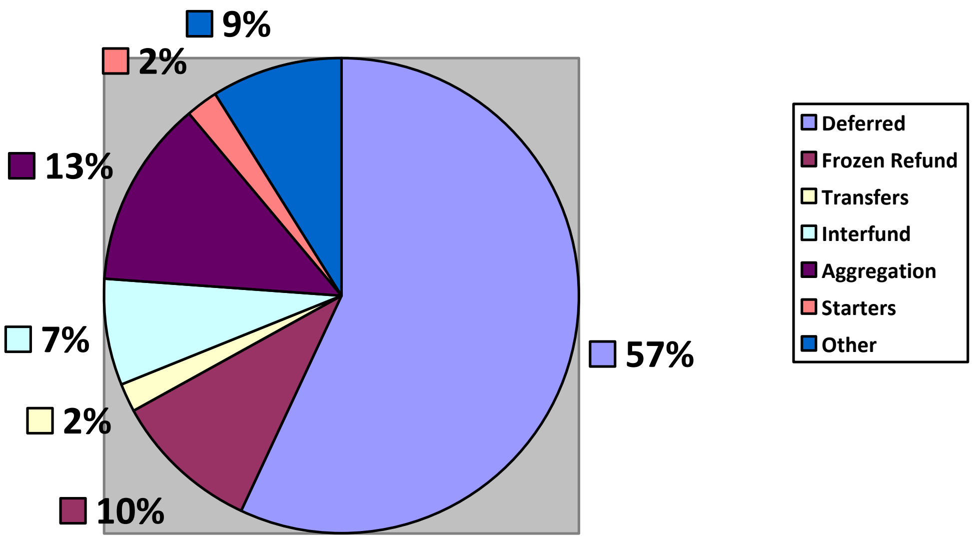
Case levels



	May	Jun	Jul
Tasks B/F	6123	5860	6031
Tasks added	783	895	822
Tasks Completed	1046	724	1075
Tasks C/F	5860	6031	5778

44% outstanding tasks relate to historic backlog of deferred benefit cases

Outstanding Cases by Type



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Member self-service

Scheme members registered	4888 (27%)
Number scheme members who accessed annual benefit statement Q1 Apr 2021 – Jun 2021	547

REPORT TO:	**Pension Committee** **14 September 2021**
SUBJECT:	**Reporting and Monitoring Contributions 2020/21**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. **RECOMMENDATION**

1.1 The Committee are asked to note and comment on this report.

2. EXECUTIVE SUMMARY

2.1 This report updates the Committee on the monitoring and payment of contributions by employers into the Pension Fund. It advises them of the position in relation to the quarter from 1 April 2021 to 30 June 2021.

3 DETAIL

3.1 At their meeting on 25 March 2021 the Pensions Board received a report entitled “Reporting and Monitoring Contributions.”

3.2 The Board was advised that The Pensions Regulator had produced a Checklist to be used “to evaluate how effectively your scheme manages contributions.” The Croydon Pension Fund confirms that it is able to record compliance with each requirement. Detailed records to support the assessments are maintained.

3.3 The Board was particularly interested as to whether any employers were in arrears, in particular if this was in excess of 60 days, and, if so, whether a list could be provided. Officers responded that, whilst it is not always straightforward to define whether an employer is in arrears, a report would be presented to the next meeting of the Board and to each one in the future. The Board therefore resolved as follows:

RESOLVED:

I. The Board **AGREED** to note the contents of the report.

II. That officers compile a simple arrears list to be presented at the next meeting.

3.4 Officers have produced a report to present to this Committee in line with the Board’s requirements for the quarter from 1 April 2021 to 30 June 2021.

3.5 This report advises the Committee of information in respect of contributions monitoring, for the period 1 April 2021 to 30 June 2021, as follows:

Payments made reconciled to schedules.

3.6 All payments for the quarter to 30 June 2021 have been reconciled to the schedules received and no payments are outstanding.

3.7 The Committee are invited to comment on and note this report.

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

4.1 There are no financial considerations arising from this report.

Approved by: Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

5. LEGAL CONSIDERATIONS

5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance and Deputy Monitoring Officer that the Council is the ‘administering authority’ for the Croydon Pension Fund which forms part of the Local Government Pension Scheme. As such the Council is responsible for administering, maintaining and investing the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Council is also a ‘scheme employer’ in relation to the Fund.

5.2 The Pension’s Regulator has identified a key improvement area regarding the relationship between Scheme Managers and Employers in their Funds and in particular how schemes manage contributions.

5.3 This report supports this key improvement area.

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

6. HUMAN RESOURCES IMPACT

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

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

7. EQUALITIES IMPACT

7.1 There are no equalities impacts arising from this report.

8. ENVIRONMENTAL IMPACT

8.1 There are no environmental impacts arising from this report.

9. CRIME AND DISORDER REDUCTION IMPACT

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

10. DATA PROTECTION IMPLICATIONS

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

NO

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

NO

10.2 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

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CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

APPENDICES:

None

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REPORT TO:	**Pension Committee** **14 September 2021**
SUBJECT:	**Review of Risk Register**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION

1.1 The Committee is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

2. EXECUTIVE SUMMARY

2.1 It is recommended best practice for the Pension Committee to maintain a risk register covering the most significant risks faced by the Fund. This report presents the current register (Appendix A) for the Committee's consideration.

3 DETAIL

3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording relevant risk scenarios, together with an assessment of their likelihood and impact and appropriate mitigations. This report discusses the most significant risks relating to governance, funding, assets and liabilities and operational matters. Appendix A details these risks.

3.2 The Committee is invited to comment on whether it considers this list sufficiently exhaustive and whether the assessment of each risk matches its perception on the adequacy of existing and future controls.

3.3 In accordance with the Risk Management Policy, the Risk Register is reviewed periodically and reported to the Committee on a quarterly basis.

3.4 Risks are rated on a scale of 1 to 5 on the likelihood of the risk occurring and its impact if it does. This allows a range of potential scores of between 1 and 25. The register shows that there are 14 risks on the main register with 11 being significant risks for the Fund (i.e. scored 12 or higher).

3.5 A second tab has been added to the register showing the risks relating the amendments to the Funding Strategy Statement (FSS). There are 19 risks shown on the second sheet with 1 being significant risks for the Fund (i.e. scored 12 or higher). The risk register is attached as Appendix A to this report.

3.6 Since the Committee last reviewed the Register, one risk relating to the Section 114 notice has been removed, existing entries have been reviewed and updated as appropriate and 19 new risks have been added in respect of the FSS amendments.

3.5 The Committee is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

4. CONSULTATION

4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the Risk Register which forms the basis of Appendix A.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Interim Director of Law and Governance and Deputy Monitoring Officer 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 Interim 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: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the 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

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

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

BACKGROUND DOCUMENTS:
None

APPENDIX:
Appendix A: Risk Register

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Pensions Risk Register

	Risk Scenario			Current Risk Rating			Future controls	ture risk rating		
	Risk	**Assigned to**	**Existing Controls**	**Impact**	**Likelihood**	**Risk factor**		**Impact**	**Likelihood**	**Risk Factor**
	Governance Risks									
1	If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to The Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12	Admission, Cessation and Bulk Transfers Policies have been drafted which will mitigate the risk.	3	3	9
	Funding - Assets and Liabilities Risks									
2	The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. The current Strategy was agreed by the Committee on 17 March 2020 with updates being agreed at the Committee meeting on 25 May 2021.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years, although this needs to be done efficiently and in a cost effective manner. Officers will work with the Actuary to seek a cost efficient way of estimating changes to the funding level.	4	2	8
3	Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager	The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and officers monitor the cashflow carefully on a monthly basis. This cash will be invested in liquid assets to mitigate this risk.	3	3	9	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.	3	2	6
4	There is a possible risk of scheduled or admitted bodies not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. There is one significant case, in terms of contributions due, which is currently being considered by the Pensions Ombudsman.	3	5	15	A structured process has been introduced to monitor receipts of contributions. Contributions and schedules are chased promptly and reconciled. Improved team communications is aiding in this process. which is monitored by the Pensions Board. These measures are improving outcomes. However, they require more time to administer and resources across the governance and accounts teams are impacted.	3	2	6
5	Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.	Head of Pensions and Treasury	The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years. The valuation states: For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.4% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.	4	2	8	Equity markets are expected to remain bullish. This should contine to drive returns above the 4.4% target.	4	2	8
	Investment Risks									
6	There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.	Pension Fund Investment Manager	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse porfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio if it underperforms relative to expectation. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.	4	3	12	The domestic economies of most developed countries have been protected and thus have proved to be resilient and to rebound quite quickly. Although the effects of the pandemic will continue to be very difficult for emerging markets and prople across the globe, the Fund is well positioned to take advantage of resurgent markets.	3	2	6
7	The London CIV has been experiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.	Head of Pensions and Treasury	Recruitment has inevitably been impacted by the lockdown but the CIV has now filled a number of key roles. This provides a degree of reassurance that fund launches and key projects should be able to proceed according to plan.	4	2	8	As the CIV becomes more established recruitment issues should become less significant.	4	2	8
	Global Macro-economic Risks									
8	Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.	Pension Fund Investment Manager	The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.	4	3	12	The asset allocation strategy will be revised during 2021/2022. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.	4	3	12
9	There is still a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterous impact on the Fund.	Head of Pensions and Treasury	The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.	3	4	12	There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.	3	3	9
10	Coronavirus – risk to investment returns of the Pension Fund from a global financial crisis. The UK economy is in recession and European and US markets are fragile. If returns on the investment of the Pension Fund are negatively impacted long term there may not be adequate resources to meet the Fund's liabilities. This may lead to a need to increase employer contribution rates. This impacts on Council budgets.	Pension Fund Investment Manager	The situation is being monitored by the Investment Manager and the LCIV Investment Team. While a temporary drop was experienced the market has now recovered and no long-term adverse effect is expected.	3	4	12	The current monitoring arrangements are effective and will continue going forward.	3	4	12
11	There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.	Pension Fund Investment Manager	Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.	4	3	12	The rebalancing has now been completed and the allocation strategy is being reviewed.	3	2	6
	Operational Risks									
12	Cyber Security – Risk to systems including by system failure, ineffective business continuity plan and lack of adequate monitoring arrangements for third party suppliers. If adequate protections are not in place to prevent system failure working time could be affected impacting workloads and delivery of key performance indicators. If an effective business continuity plan is not in place and communicated to staff the impact of any system failure will be increased. If adequate monitor arrangements for suppliers are not implemented and reviewed service delivery may be adversely affected.	Head of Pensions Administration	Heywoods is a hosted system. They have processes in place for backing up files, storing data safely and preventing system failure. This is included in the contract we have with them. The technical team keep logs of issues and responses to monitor this. We have a business continuity plan in place should issues arise. Key suppliers, Aquila Heywood and Hymans Robertson both have ISO:270001 which is the international standard for information security management systems (ISMS).	4	3	12	Communication of the business continuity plan to relevant staff could be considered Check with key suppliers for details of any annual security reviews/audits	4	2	8
13	Cyber security - risk of unauthorised access to personal and other data including by unsafe home working practices, data access protection and levels and safe storage of data. If safe working practices are not followed devices could be lost or stolen or data could be viewed or tampered with. If data access levels are not kept up to date and set at a level appropriate for the performance of the duties of the role only, any possible misuse or error will have a more severe effect. If data held on the pension system is not backed up there is a risk of data being lost in the event of a system failure.	Pensions Administration Manager	• Mandatory GDPR training has been provided to all new and existing staff. • There is a remote working protocol available on the staff intranet which includes guidance on working securely, in addition to a good practice guide on information management. • When working from home devices are encrypted and accessed via a VPN. Bit locker and passwords are required to access systems. No physical papers are taken home and staff are advised of the need to keep computers in a secure place, never to leave devices unattended and not to access systems in public locations. • Appropriate data access levels to the pensions administration system are assigned by the Technical Support Team on appointment or change of role, according to the requirements of the role.	4	3	12	Cyber security training for all staff	4	2	8
14	McCloud Judgement. There is a risk affecting our ability to implement the requirements of the McCloud judgement post resolution. Issues include lack of historic data, appropriate resource, capacity or budget to undertake the work. This could result in legal breaches reportable to the Pensions Regulator, incorrect pension entitlements being calculated for pensioners and loss of confidence in the service by scheme members and employers.	Pensions Manager	Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department. The Technical Team are ensuring that part time hours are being recorded on Altair.	4	4	16	Decide how gathering of data from employers will be resourced. Once regulations issued and remedies understood, ensure pension service is appropriately resourced to deal with additional workload	4	3	12

Key

Below 10 is considered a Green Risk.	Impact is measured on a scale of 1 to 5.
A score between 10 and 19 is an Amber Risk.	A score of 1 suggests that the potential impact would be insignificant and a score of 5 would be catastrophic.
A score of 20 or above is a Red Risk.	Likelihood is also measured on a scale of 1 to 5.
	In this instance a score of 1 suggests that the occurrence will be rare and score of 5 would be almost certain to happen.

Pension Risks Register - FSS Amendments April 2021

	Risk Scenario		Current Risk Rating				Future controls	ure risk rating		
	Risk	Assigned to	Existing Controls	Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
	Financial Risks									
15	**FSS Revisions**									
15.1	Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term	Pension Fund Investment Manager	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.Analyse progress at three yearly valuations for all employers.Inter-valuation roll forward of liabilities between valuations at whole Fund level.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years, although this needs to be done efficiently and in a cost effective manner. Officers will work with the Actuary to seek a cost efficient way of estimating changes to the funding level.	4	2	8
15.2	Inappropriate long-term investment strategy.	Pension Fund Investment Manager	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance	4	2	8	Officers and advisors will continue to monitor the performance of the Fund.	4	2	8
15.3	Active investment manager under-performance relative to benchmark.	Pension Fund Investment Manager	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark	4	2	8	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark	4	2	8
15.4	Pay and price inflation significantly more than anticipated.	Pension Fund Investment Manager	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk.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.	3	3	9	This riusk can be mitigated in the future by monitoring the duration of bond investments.	3	2	6
15.5	Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	Pension Fund Investment Manager	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.	2	2	4	Stabilization more effective if given sufficient time to take effect.	2	2	4
15.6	Orphaned employers give rise to added costs for the Fund	Pension Fund Investment Manager	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).	1	3	3	As the size of the Fund grows the potential impact caused by any one employer is reduced.	1	2	2
15.7	Effect of possible asset underperformance as a result of climate change	Pension Fund Investment Manager	The Fund invests its assets in line with Responsible Investment beliefs and guidelines. 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).	2	2	4	This is a priority for the Fund and so early intervention is likely to be effective.	2	1	3
	Demographic Risks									
15.8	Pensioners living longer, thus increasing cost to Fund	Pension Fund Investment Manager	Set mortality assumptions with some allowance for future increases in life expectancy. 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.	1	1	1	Continued monitoring and analysis by the Actuary.	1	1	1
15.9	Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Pension Fund Investment Manager	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.	1	1	1	Although not an issue for this Fund at present this risk will become more significant in future years.	2	2	4
15.10	Deteriorating patterns of early retirements	Pension Fund Investment Manager	Employers are charged the extra cost of non ill-health retirements following each individual decision.Employer ill health retirement experience is monitored, and insurance is an option.	1	1	1	No compelling evidence of this happening at present.	1	1	1
15.11	Reductions in payroll causing insufficient deficit recovery payments	Pension Fund Investment Manager	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 Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3).	1	1	1	The current mitigations will also be effective in the future.	1	1	1
	Regulatory Risks									
15.12	Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	Pensions Manager	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. 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.The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation	1	2	2	The most significant risk apparent at present relates to the McCloud case and this is factored in to business planning.	1	1	1
15.13	Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Pension Fund Investment Manager	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	1	1	1	Although an on-going risk, reliance on advice from the Actuary should be sufficient to manage this.	1	1	1
15.14	Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	Pension Fund Investment Manager	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate	1	1	1	The steps outlined for the current mitigations will continue to be effective in the future.	1	1	1
	Governance Risks									
15.15	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. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts	1	1	1	The maintenance of strong communication links with admitted bodies should ensure this risk is understood and managed going forwards.	1	1	1
15.16	Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	Pension Fund Investment Manager	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.	1	1	1	Adequate safeguards are in place.	1	1	1
15.17	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 .Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken	1	1	1	There are sufficient protections in place, including audit requirements and the Local Pensions Board.	1	1	1
15.18	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. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).	2	3	6	These circumstances have arisen in the past and although the impact is manageable the likelihood of this happening again is a material risk.	2	3	6
15.19	An employer ceasing to exist resulting in an exit credit being payable		The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.	2	3	6	Monitoring admission agreements is an effective control.	2	4	8

Key

Below 10 is considered a Green Risk.	Impact is measured on a scale of 1 to 5.
A score between 10 and 19 is an Amber Risk.	A score of 1 suggests that the potential impact would be insignificant and a score of 5 would be catastrophic.
A score of 20 or above is a Red Risk.	Likelihood is also measured on a scale of 1 to 5.
	In this instance a score of 1 suggests that the occurrence will be rare and score of 5 would be almost certain to happen.

Risk Matrix

				IMPACT		
		1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Catastrophic
L I K E L I H O O D	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

REPORT TO:	**PENSION COMMITTEE** **14 September 2021**
SUBJECT:	**Pension Fund Environmental, Social and Governance Policy.**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: This is a matter for the Pension Committee relating to the Pension Fund's environmental, social and governance policy for investments and fund managers.	
FINANCIAL SUMMARY: This report relates to investing the Croydon Pension Fund. In order to meet the overall investment targets for the Fund the funds that the Pension Fund are invested with need to meet a number of criteria; failure to meet return targets many impact on the overall viability of the Fund and increase the impact on the Pension Fund on the authority.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

1.1 The Committee is asked to agree the recommended policy targets set out below:

1.2 To revise section 6 of the Investment Strategy Statement to read '*The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these [same] environmental, social and governance policy issues*.'

1.3 To include a statement to move towards net carbon neutrality into the Fund's investment policy, by incorporating into current investment criteria.

1.4 To incorporate the option to allow London CIV concessions.

1.5 To continue to subscribe to the LAAPF to meet commitments to engage and campaign on social and governance issues.

1.6 To encourage fund managers to report on environment factors.

1.7 That officers survey fund managers to identify best practice that can be included in regular performance reporting.

1.8 That the Committee selects an external provider to measure progress towards net zero carbon and report periodically to the Committee or consider expanding the Pension Fund Investment team to undertake this piece of work.

2 EXECUTIVE SUMMARY

2.1 This report sets out a framework to ensure that the Croydon Pension Fund adopts an Environmental, Social and Corporate Governance policy that is appropriate and a set of goals that are achievable.

3 DETAIL

3.1 This report considers how the Croydon Local Government Pension Scheme Fund (the Fund) should respond to some of the most demanding issues of the day: climate change, the state of the environment including the oceans and rivers but also locally, modern slavery, and corruption and poor governance. The Council's current approach is set out in the Croydon Investment Strategy Statement which was agreed at the Pension Committee 18 September 2018 (Minute A50/18 refers). The section on ESG issues is set out here:

Environmental, Social and Corporate Governance (ESG)

6.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

6.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

6.3 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. The Fund will disinvest from existing fossil fuel investments in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.

6.4 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

6.6 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.7 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

6.8 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

3.2 A great deal has occurred in the three years since this version of the policy was adopted, most recently the publication of the IPCC Climate Change 2021 report. In such a dynamically evolving environment it is important to review the Council's approach to these issues frequently: to ensure the policy reflects current thinking and to incorporate successful practices as well as assessing the global state of thinking. Specifically this policy should reflect the Paris Accord and be flexible enough to incorporate whatever should come from COP26 at Glasgow this autumn. It is important to note that this policy already requires that fund managers integrate ESG into investment decisions. The policy specifies excluding tobacco investments. There is also a reference to disinvesting from existing fossil fuel investments. There is an inherent problem with too many exclusions, and this approach may result in perverse outcomes and unbalancing the portfolio. The policy mentions appropriate monitoring and this report touches on this further below. Similarly talk of collaborating is addressed below when this report discusses the relationship with the London Collective Investment Vehicle (London CIV). The key point the current policy makes, which is given due emphasis by this report, is the necessity to invest on the basis of risk and return.

3.3 The Pension Committee's professional investment consultants, Mercer, have briefed the Committee on the subject of Investing in a Time of Climate Crisis (Minute 63/19 refers). This training session covered the steps that this Committee had taken to date, i.e. excluding tobacco shares, discussing the concept of carbon neutral and investing in infrastructure. The Committee also considered the ethical and financial factors that influenced these decisions, key metrics, and this lead to a discussion about decarbonising towards carbon neutrality. The question of how to implement such a policy was addressed with five recommendations:

3.3.1 Ensure the Committee has a clear direction that enables the Fund to communicate its approach to climate change proactively. Include sustainable investment beliefs and implementation considerations.

3.3.2 Increase exposure to sustainability themed strategies that align with the shift to the low carbon economy. Consider a more transition aligned benchmark.

3.3.3 Include decarbonisation into investment policy, with expectation of portfolio wide action over a reasonable timeframe – set targets. Minimise costs, maximise impacts. Keep risk, return and reputation, as well as practical implications central to execution.

3.3.4 Collaborate to influence London CIV policy on climate change. Consider supporting an engagement initiative.

3.3.5 Strong, candid leadership – perform to targets and report regularly on progress with transparent communications to members and other interested stakeholders. Consider adopting the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

3.4 It is apparent that these are significant issues and this report will seek to address them. If there is a hierarchy for these issues at the top of the pyramid must be sustainable investment beliefs. The current statement on this is set out in the ISS at paragraph 6.3, reproduced. It may be that a condensed version of this will be adequate to reflect the Committee's beliefs, such as:

The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these [same] environmental, social and governance policy issues.

The issue of disinvesting from existing fossil fuel investments is complex. Definition is difficult (apart from the measure of the influence of supply chains and incidental contributors to carbon pollution) and this approach does not distinguish between forward thinking green advocates and notorious polluters. There is also the question of the structure of the portfolio – effectively this ambition applies to listed equity and to continue to disinvest the authority would either have to look for a closely defined passive fund or manage a segregated fund. This approach would be at odds with LCIV's more inclusive compromise which excludes some fossil fuel investments but which allows a proportion in its policy.

3.5 The second recommendation above, which is to Increase exposure to sustainability themed strategies that align with the shift to the low carbon economy is already incorporated in the current alternatives portfolio: the Fund has invested in a number of Infrastructure Funds managed by Access, Temporis, Equitix, MacQuarrie (ex – Green Investment Bank) and I – Squared.

3.6 The third recommendation, to include decarbonisation or indeed a direction of travel towards net carbon neutrality into the Fund's investment policy, can be readily incorporated into current investment criteria. The question of metrics is addressed below.

3.7 The question of collaborating with the regional pool, managed by the London CIV, is also fairly complex. The governance structure of the CIV embraces compromise and thus absolute positions, such as described above, cannot be accommodated easily. The process by which new funds are brought into the CIV relies on groups of administering authorities coming together to agree some sort of compromise and the Committee will have to decide, on a case by case basis, whether they can accept such concessions. This will have to be built into the arrangements set out by the Investment Strategy. At various times the Committee has discussed a number of exclusions from the Fund. These include controversial weapons, nuclear, alcohol, adult entertainment, and gambling. These exclusions have also been considered by the CIV. Note that this group of businesses do not necessarily impact negatively on the environment – these considerations fall within the 'social' bracket. The key is engagement with and monitoring of the London CIV along with other ESG issues.

3.8 So far this report has focussed very much on the environmental part of the ESG policy. This is not unreasonable given the high-profile given to these issues and the urgency of introducing change. But social and governance issues are also critical aspects of stewardship and impact significantly on returns and the reputation of the authority. To date this authority has relied on the work of the Local Authority Pension Fund Forum (LAPFF) for engagement and stewardship in respect of social and governance issues. The Forum comprises 81 Pension Funds and 6 Pools and so can effectively engage and campaign on a number of stewardship issues. Voting, at present, is undertaken by the passive equity fund manager according to their specific voting guidelines.

3.9 As touched on above, there are a number of issues about measuring progress towards the targets suggested above. These fall into two categories. Each of the fund managers that make up the Pension Fund portfolio will publish data on progress towards meeting their targets. This data could be collated and presented to this Committee. This approach would be demanding in terms of resources and there would be issues in terms of timing and lagging. Further comparability between different types of funds and indeed within asset classes would be challenging at best and possible inappropriate. However, for some of the over-arching issues, such as progress towards carbon neutrality, some way may need to be found to measure progress towards this goal. As mentioned above, the Committee may wish to commit to the Task Force on Climate-related Financial Disclosures. Officers will need to engage with fund managers to assess the practicality of this and agree appropriate metrics.

3.10 Given that this is such a rapidly evolving aspect of managing the Pension Fund Officers recommend that fund managers are surveyed as to what information is already generated, whether there are market best practices that should be adopted, and whether these practices should be adopted across the portfolio and a selection criteria for choosing future investments.

3.11 As to the question of achieving net zero carbon emissions, officers recommend that the Committee selects an external provider to manage this data and report periodically to the Committee or consider expanding the Pension Fund Investment team to undertake this piece of work. It would not be appropriate to set a time scale at present before this exercise reports on feasibility and direction of travel.

3.12 The final consideration is to future proof this policy. This would involve periodic reviews of the policy, relevant metrics, targets and timescales. It would also involve revisiting the policy in the light of developments such as those anticipated by COP26.

3.13 In summary here are the recommendations of this report:

3.13.1 To revise section 6 of the Investment Strategy Statement as per the recommendation in paragraph 3.4.

3.13.2 To include an ambition for decarbonisation into the Fund's investment policy, by incorporating into current investment criteria, as set in paragraph 3.6.

3.13.3 To incorporate the option to allow London CIV concessions, as per paragraph 3.7.

3.13.4 To continue to subscribe to the LAAPF to meet commitments to engage and campaign on social and governance issues, as set out in paragraph 3.8.

3.13.5 To encourage fund managers to report on environment factors, as described in paragraph 3.9.

3.13.6 That officers survey fund managers to identify best practice that can be included in regular performance reporting, as per paragraph 3.10.

3.13.7 That the Committee either select an external provider to measure progress towards net zero carbon and report periodically to the Committee or consider expanding the Pension Fund Investment team to undertake this piece of work. (Paragraph 3.11).

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 management of the Council's Pension Fund.

Approved by: Nigel Cook, Head of Pensions and Treasury on behalf of Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that the provisions of Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 place the following requirements on the Administering Authority in relation to the Investment Strategy:

"7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State

(2) The authority's investment strategy must include—

(a) a requirement to invest fund money in a wide variety of investments;
(b) the authority's assessment of the suitability of particular investments and types of investments;
(c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
(e) the authority's policy on how social, environmental and corporate governance

considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

(5) The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund."

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

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

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

8. HUMAN RESOURCES IMPACT

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

Approved by: Sue Moorman, Director of Human Resources

9. EQUALITIES IMPACT

9.1 There are no equalities impacts arising from this report.

10. ENVIRONMENTAL IMPACT

10.1 There are no environmental impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

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

12. DATA PROTECTION IMPLICATIONS

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

NO

12.2 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Sue Moorman, Director of Human Resources

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

Training material presented to the Pensions Committee

Investing in a Time of Climate Crisis, Mercers, 5th November 2019

London Borough of Croydon ESG Policy, Mercers, September 2021

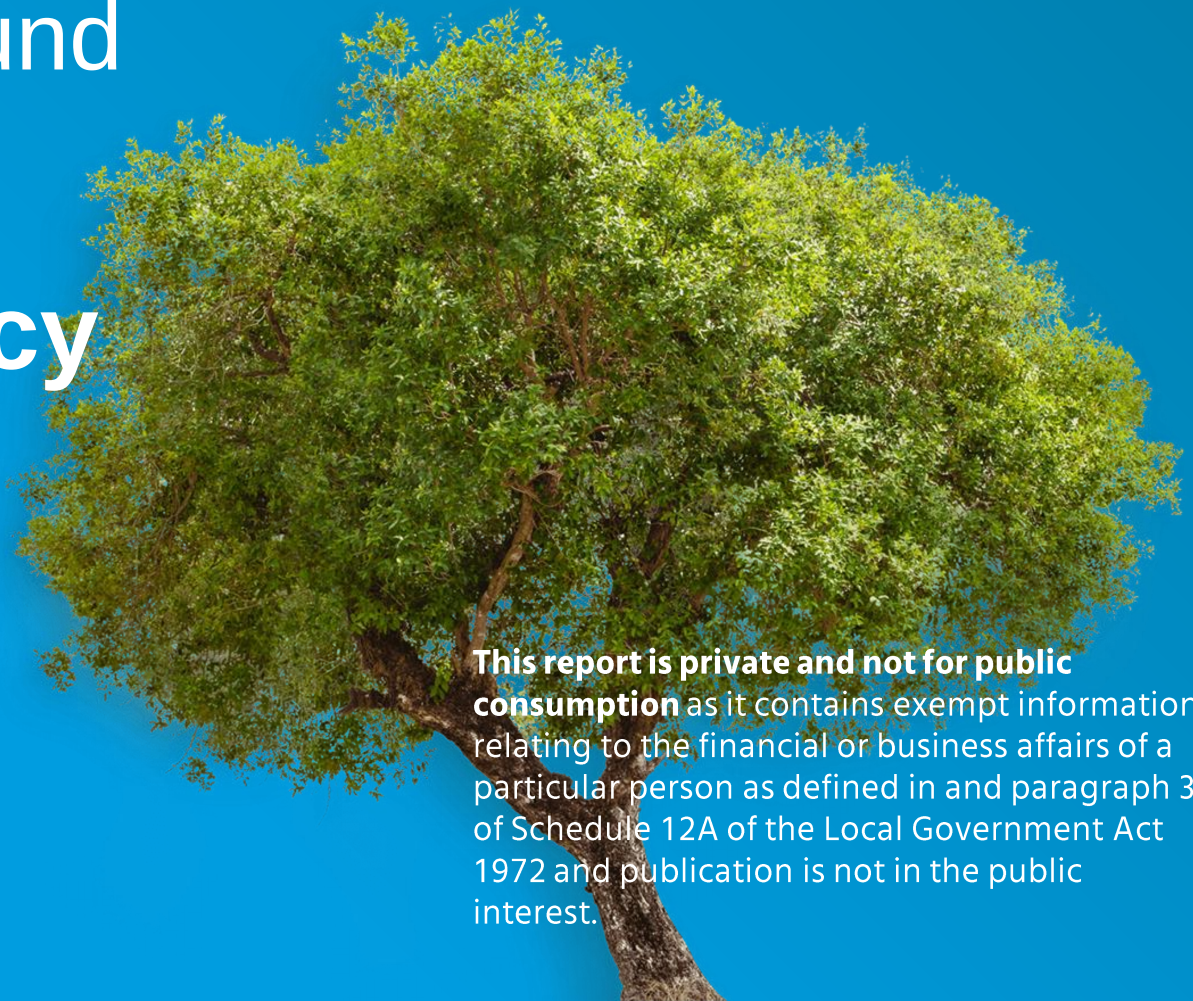
Appendices:

There are no appendices.

Mercer

London Borough of Croydon Pension Fund

ESG Policy



September 2021

Peter Gent FIA

welcome to brighter

This report is private and not for public consumption as it contains exempt information relating to the financial or business affairs of a particular person as defined in and paragraph 3 of Schedule 12A of the Local Government Act 1972 and publication is not in the public interest.

Introduction

This report is addressed to the Pensions Committee (“the Committee”) of the London Borough of Croydon Pension Fund (“the Fund”)

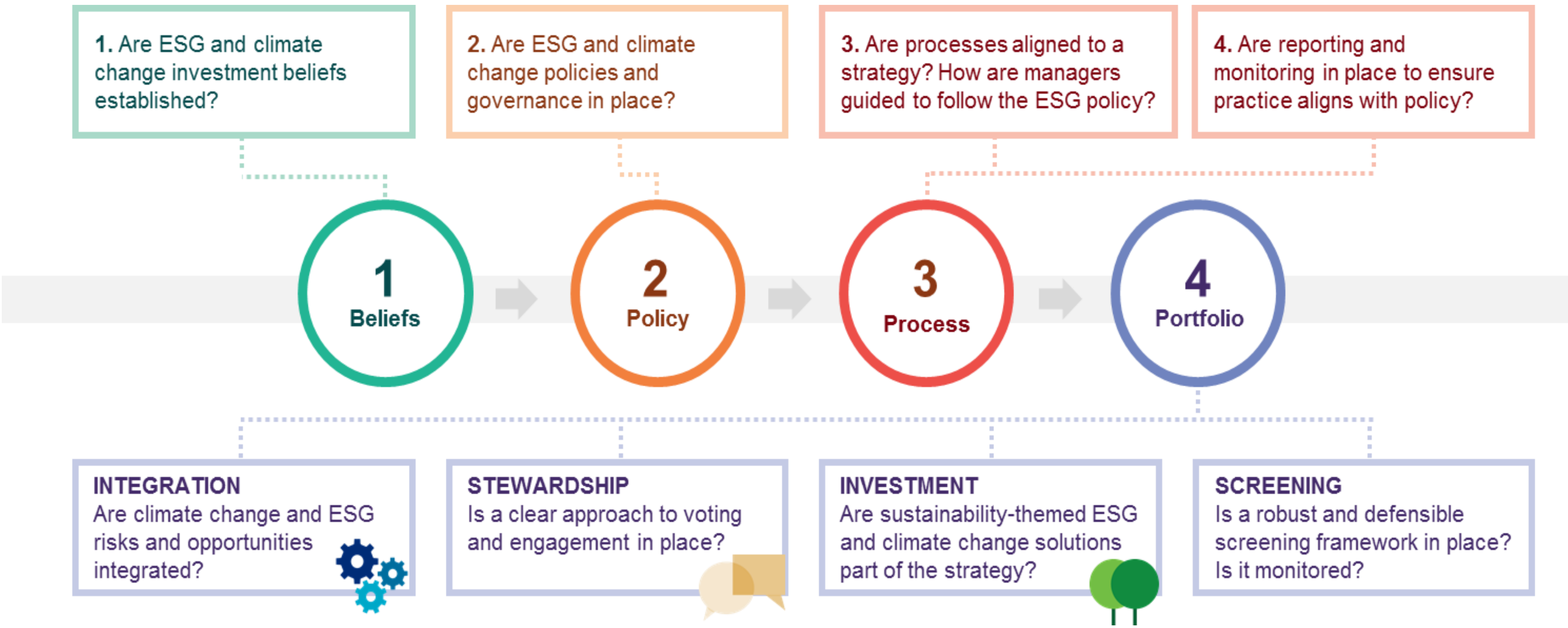
The Committee’s beliefs on Environmental, Social and Governance (‘ESG’) considerations are well defined.

The policy approach to ESG is formally set-out in the Fund’s Investment Strategy Statement (‘ISS’). Since this part of the ISS was last updated, there have been significant changes in terms of approach to measuring ESG integration and implementation options via the London CIV (‘LCIV’).

The purpose of this paper (in conjunction with the Officer paper) is to re-visit the Fund’s ESG policy and assess if there are any amendments that can be made to reflect the industry wide evolution of approach on ESG integration.

Once the ESG policy has been agreed, the Committee can start to measure and evolve the portfolio (including a review of the equity portfolio at the Q4 2021 meeting) in-line with best practice.

Responsible Investment
Framework for ESG integration



Fund's Current Policy

The Fund will only invest in investments with a ***strong environmental, social and governance policy that includes no tobacco investments****. The* ***Fund will disinvest from existing fossil fuel investments*** *in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.*

Mercer

Setting targets
Be aware of unintended consequences

- Understand your metrics
- Balance with other pension and investment risks
- Be flexible to new data and approaches
- Divestment is a tool not the answer
- Look for opportunities
- Set the baseline year

"Merely selling your stocks that make you look bad from a fossil fuels standpoint is a reverse greenwashing because it doesn't actually fix the problem" Guy Opperman, Pensions Minister

Climate change risk
Fossil fuel divestment vs carbon management

	MSCI ACWI - Global Index	A ACWI ex-Fossil Fuels	B ACWI Low Carbon Leaders	C ACWI Low-Carbon Target
	Parent Index	An alternative	An alternative	An alternative
Carbon Intensity (company specific direct and indirect emissions)	100	-17%	-51%	**-80%**
Potential Carbon Emissions (carbon reserves)	100	-100%	-66%	**-97%**
Coal Reserves (% index weight)	0.9%	0.0%	0.3%	**0.0%**
Fossil Fuel Reserves (% index weight)	6.5%	0.0%	4.8%	**1.2%**

Source: MSCI

A

"… broad market while excluding companies that own oil, gas and coal reserves… "

B

"… two dimensions of carbon exposure – carbon emissions and fossil fuel reserves – an effective tool for limiting the exposure to carbon risk… "

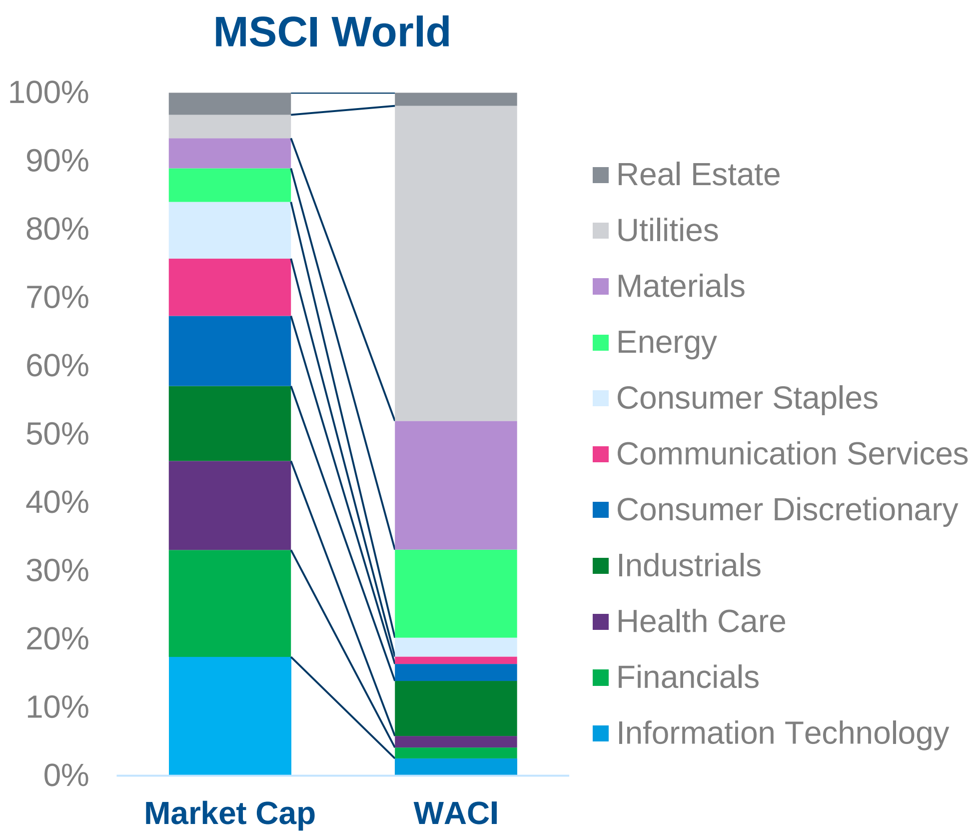
C

"… a benchmark for investors who wish to manage potential risks associated with the transition to a low carbon economy – a tracking error target of 0.3% (30 basis points)… "

A focus on reducing carbon emissions across the portfolio (as opposed to divestment from fossil fuels) is now possible and gives a more robust approach to managing climate change risk and allows the Committee to investigate timescales to achieving net-carbon neutrality. A strategy focused on carbon will include divestment from some fossil fuel companies.

Climate change risk
Fossil fuel divestment vs carbon management

There are substantial differences between emissions from different sectors. Relatively small sectors like Utilities, Materials and Energy are (not surprisingly) relatively high emitters compared to their weight in indices.



Climate Change Risk
An alternative route

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Measure carbon intensity of portfolio and integrate carbon intensity when building equity portfolio (along with other investment risks)

Report in line with TCFD* (in advance of regulatory requirement to do so)

Undertake climate change scenario analysis and investigate time scale feasibility of net zero target

* See previous training session

Broad ESG Integration
An alternative route

ESG ratings are undertaken by Mercer's global manager research team. They are on a scale from 1 (highest) to 4 (lowest) and assess how well managers integrate ESG factors into investment processes.

ACTIVE

ESG 1

Leading approach to integration, where ESG is **embedded in investment philosophy;** strong on stewardship which is a core part of process

ESG 2

Consistent and repeatable process to ESG integration (**focus on risk management**); well-developed evidence of stewardship.

ESG 3

Well-developed G integration; less consistency in E&S stewardship process is ad hoc, but indications of progress.

ESG 4

Little or no integration of ESG factors or stewardship into core processes and no indication of future change.

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Ratings for passive equity strategies differentiate how well firms undertake their stewardship activities such as voting, engagement, industry collaboration and reporting.

PASSIVE

ESGp 1

Leaders in V&E **across ESG**; stewardship activities and ESG initiatives undertaken consistently at a **global level; clear link between engagement & voting actions**

ESGp 2

Strong approach to V&E across ESG topics, and initiatives at a regional level, with progress made at a global level; **working towards clearer links between V & E**

ESGp 3

Focus of V&E tends to be on **governance topics only**, or more regionally focused with **less evidence of E&S** (in voting & engagement, as well as other internal ESG initiatives)

ESGp 4

Little or no initiatives taken on developing a global V&E capability, reactive engagements; and little progress made on other ESG initiatives

Allow LCIV and managers to integrate ESG requirements on Fund's behalf with appropriate level of engagement and oversight.

Conclusion and next steps

We support an evolution of approach to a more holistic integration of ESG considerations by the Fund. This would include:

- A focus on managing carbon intensity rather than solely divestment of fossil fuels
- Investigate decarbonisation timescales
- Allowing concessions to LCIV (and their chosen mangers) to manager broader ESG issues with the appropriate level of engagement and measurement (e.g. ongoing carbon intensity and measurement of tobacco holdings)
- Focus on engagement and stewardship to ensure effective implementation and measurement of ESG issues
- Update reporting in line with best practice including TCFD

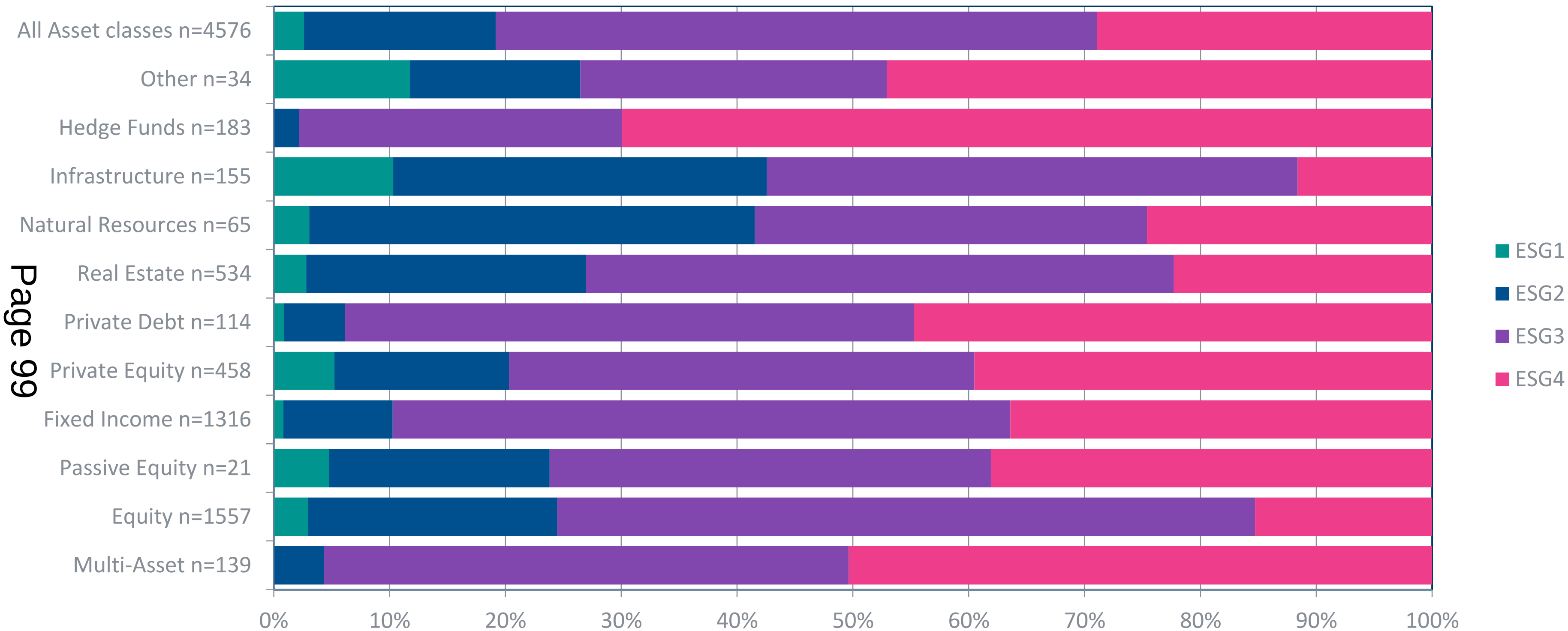
The immediate next steps are as follows:

- Update the ESG policy statement in the ISS based on the wording set out in the Officer paper
- Use the current portfolio as a baseline and review the equity managers at the next meeting in-line with the revised policy (and broader investment risk considerations)
- Update reporting and draft TCFD report for consideration by the Committee
- Investigate timescale of targeting a net-carbon-zero position
- Review and refine approach to ESG in-line with current best practice

Appendix

Mercer’s ESG Ratings
By Asset Class

Distribution of 4,500+ Mercer ESG ratings*



Over **4,500** strategies rated currently – ratings began in **2008**

Approximately **19%** achieve an **ESG1** or **ESG2** rating

ESG ratings for passive equity introduced in **2014**

Mercer

ESGp ratings for passive equity are applied at manager level and are not included in the total strategy count
ESG ratings on sub-advised strategies are also excluded from the total to avoid double counting
“All Other” predominantly includes multi-asset strategies
**Analysis as at March 2020

What does Divestment from Fossil Fuel mean?

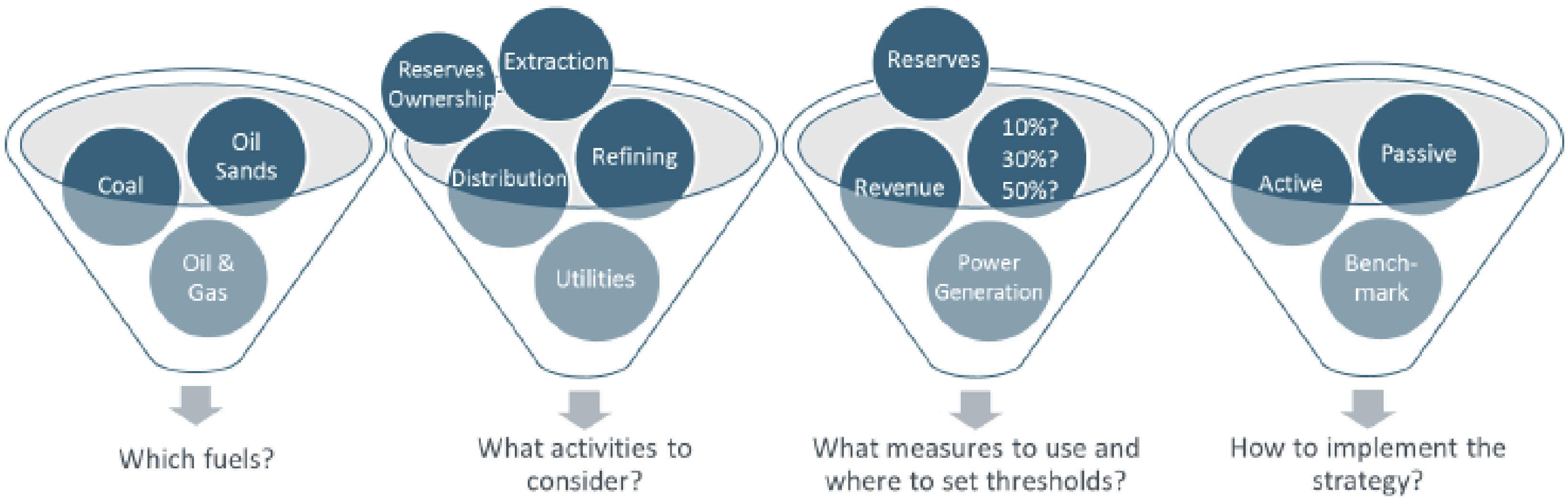
While 'Divestment' may sound simple as an investment approach, in practice it is complex and there are a number of definitions used across the industry. In addition, while used widely, the term 'Fossil Free' is not consistently defined.

Broad class	Description
Full Divestment	Binding commitment to divest (direct ownership, pooled funds, shares, corporate bonds or any other asset classes) from any fossil fuel company (coal, oil, gas, unconventional) - any tie
Partial Divestment	Binding commitment to divest across asset classes from some fossil fuel companies (coal, oil, gas, unconventional); or to divest from all fossil fuel companies (coal, oil, gas, unconventional) but only in specifc asset classes (direct investments, domestic equity) or using a defined treshold
Fossil Free	Resulting from full divestment and commitment to avoid any fossil fuel investment in the future

Focus of divestment is on "fossil fuel companies" - those companies that own fossil fuel reserves (potential emissions)

Mercer

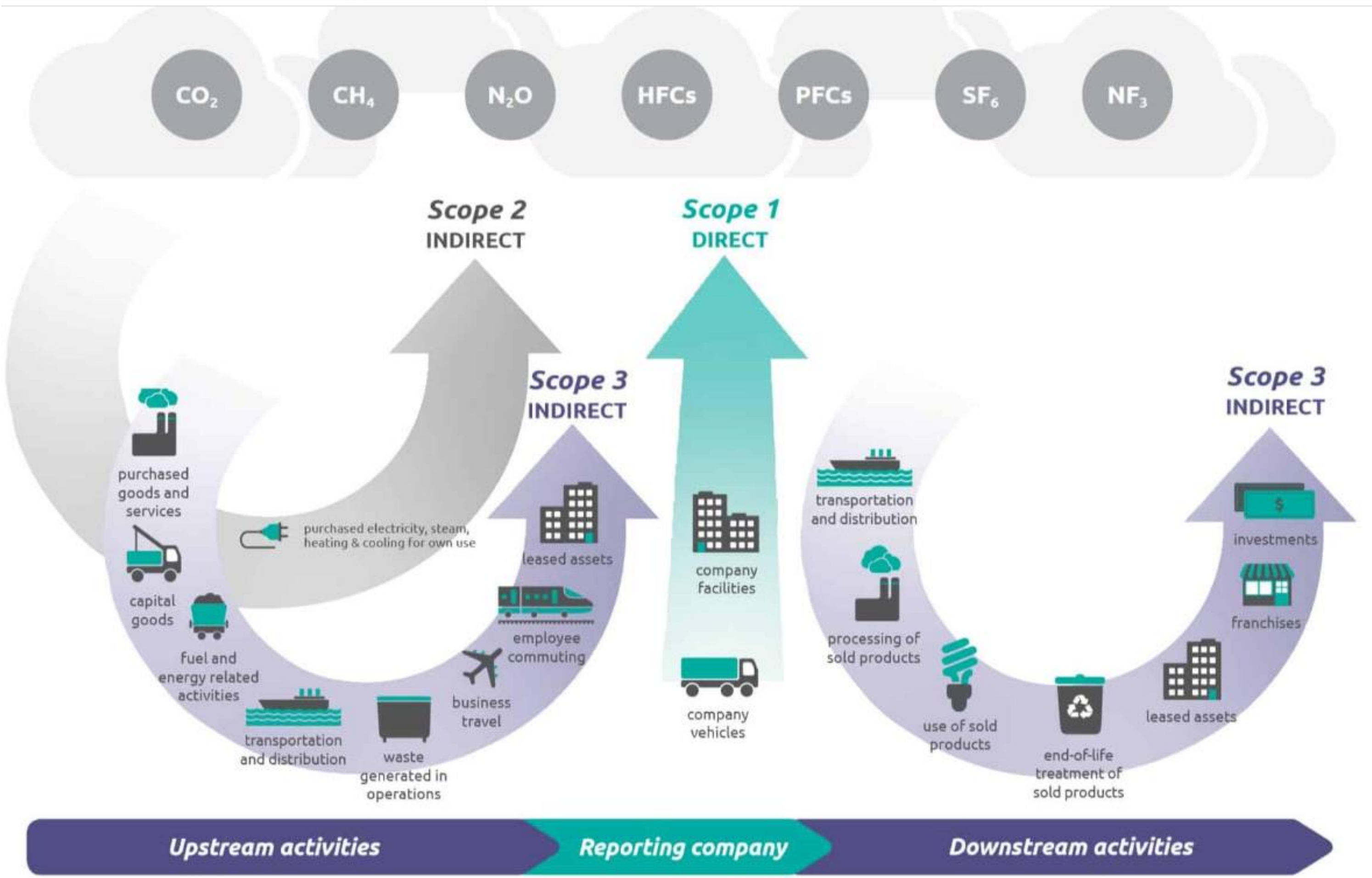
Divestment Implementation
Questions to ask



FURTHERMORE, WHICH ASSET CLASSES?

SOURCE: MSCI

Carbon footprinting
Scope 1, 2 and 3 emissions



Source: compareyourfootprint.com

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TCFD Reporting Best Practice
Regulators Direction of Travel

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Governance

- Review **climate change-related investment beliefs**
- Establish processes to gain comfort that managers are assessing and managing climate-related risks and opportunities
- **Regular climate training**

Strategy

- Conduct **climate change scenario analysis** to understand the impact on assets/liabilities
- **Stewardship** included in the strategy, with a focus on policy and industry engagement, including collaborative and climate change initiatives

Risk Management

- Include climate change risk within the **risk register**
- Include climate change considerations as part of the **selection and monitoring of managers**, with a particular focus on integrating/voting/engaging on climate change
- **Annual review of manager ESG ratings** alongside other climate change data
- Consider sustainable asset allocations

Metrics and Targets

- Align with best practice approaches, in terms of metrics to measure risk and opportunity
- Carry out **carbon foot-printing** on equity and corporate bond portfolios.
- Consider **non-emissions based metrics**, such as green revenues.
- Consider what target(s) can be set to manage climate-related risks.

UK Stewardship Code 2020

Principles for asset owners and asset managers

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1 **Purpose, investment beliefs, strategy and culture** enable stewardship that creates long-term value for clients and beneficiaries.

2 **Governance, resources and incentives** support stewardship.

3 Manage **conflicts of interest** to put best interests of clients and beneficiaries first.

4 Identify and respond to market-wide and systemic risks to **promote a well-functioning financial system.**

5 **Review stewardship policies,** review processes and assess the effectiveness of activities.

6 Take **account of client and beneficiary needs** and communicate the activities and outcomes of stewardship and investment.

7 Systematically **integrate stewardship and investment**, including material ESG issues, and climate change to fulfil responsibilities.

8 **Monitor and hold account** managers and/or service providers

9 **Engage with issuers** to maintain or enhance the value of assets

10 Participate in **collaborative engagement** to influence issuers.

11 **Escalate stewardship activities** to influence issuers where necessary.

12 Actively exercise **rights and responsibilities**

Important Information

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REPORT TO:	**PENSION COMMITTEE** **14 September 2021**
SUBJECT:	**Progress Report for Quarter Ended 30 June 2021**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments is in line with their benchmark and within the assumptions made by the Actuary.	
FINANCIAL SUMMARY: This report has been prepared, in addition to the commercially sensitive appendices, to inform the Committee's discussions.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

1.1 The Committee are asked to consider and note the contents of this report.

2 EXECUTIVE SUMMARY

2.1 This report provides the commercially sensitive context to the performance of the Pension Fund over the most recent quarter.

2.2 Performance analysis and market commentary provided by Mercer are included at Appendix A and Appendix B respectively.

3 INVESTMENT ADVISOR'S REVIEW

3.1 An independent view of the fund managers' performance has been provided by Mercer and is attached as Appendix A.

3.2 Mercer have also provided contextual narrative on the market background and outlook and this is attached at Appendix B.

4 CONSULTATION

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

5 FINANCIAL AND RISK ASSESSMENT 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.

Approved by: Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

6 LEGAL CONSIDERATIONS

5.1 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 Interim Director of Law and Governance and Deputy Monitoring Officer

6. HUMAN RESOURCES IMPACT

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

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

7. EQUALITIES IMPACT

7.1 There are no equalities impacts arising from this report.

8. ENVIRONMENTAL IMPACT

8.1 There are no environmental impacts arising from this report.

9. CRIME AND DISORDER REDUCTION IMPACT

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

10. DATA PROTECTION IMPLICATIONS

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

NO

10.2 This report contains confidential information which could be of a sensitive nature, disclosure of which could prejudice the commercial interest of the companies involved and those of the Council's Pension Fund.

10.3 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: London Borough of Croydon Investment performance report – quarter to 30 June 2021, Mercer

Appendix B: Market background and outlook – 30 June 2021, Mercer

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

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