

# Pension Committee Agenda



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

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

Reserve Members: Luke Clancy, Nina Degrad, 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 **Wednesday, 13 April 2022 at 10.00 am in Room 1.01 and 1.02 - Bernard Weatherill House, Mint Walk, Croydon CR0 1EA**

Katherine Kerswell  
Chief Executive  
London Borough of Croydon  
Bernard Weatherill House  
8 Mint Walk, Croydon CR0 1EA

Democratic Services  
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[www.croydon.gov.uk/meetings](http://www.croydon.gov.uk/meetings)  
Tuesday, 5 April 2022

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

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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. Disclosure of Interests

Members and co-opted Members of the Council are reminded that, in accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, they are required to consider **in advance of each meeting** whether they have a disclosable pecuniary interest (DPI), another registrable interest (ORI) or a non-registrable interest (NRI) in relation to any matter on the agenda. If advice is needed, Members should contact the Monitoring Officer **in good time before the meeting**.

If any Member or co-opted Member of the Council identifies a DPI or ORI which they have not already registered on the Council's register of interests or which requires updating, they should complete the disclosure form which can be obtained from Democratic Services at any time, copies of which will be available at the meeting for return to the Monitoring Officer.

Members and co-opted Members are required to disclose any DPis and ORIs at the meeting.

- Where the matter relates to a DPI they may not participate in any discussion or vote on the matter and must not stay in the meeting unless granted a dispensation.
- Where the matter relates to an ORI they may not vote on the matter unless granted a dispensation.
- Where a Member or co-opted Member has an NRI which directly relates to their financial interest or wellbeing, or that of a relative or close associate, they must disclose the interest at the meeting, may not take part in any discussion or vote on the matter and must not stay in the meeting unless granted a dispensation. Where a matter affects the NRI of a Member or co-opted Member, section 9 of Appendix B of the Code of Conduct sets out the test which must be applied by the Member to decide whether disclosure is required.

The Chair will invite Members to make their disclosure orally at the commencement of Agenda item 3, to be recorded in the minutes.

**3. 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.

**4. Progress on Implementing Findings of Governance Review (Pages 5 - 26)**

The Pension Committee is asked to note the progress achieved in addressing the findings of the Governance Review of June 2021.

**5. Timetable for Triennial Actuarial Valuation and Review of Asset Allocation (Pages 27 - 30)**

The Pension Committee is asked to note the content of the report.

**6. Progress Report for Quarter ended 31 December 2021 (Pages 31 - 34)**

The Pension Committee is asked to note the performance of the Fund for the quarter ended 31 December 2021.

**7. Appointment of External Auditors (Pages 35 - 38)**

The Pension Committee is asked to recommend to Full Council, in its capacity as Scheme Administrator, that the external auditor for the pension fund for the audit years 2023/2024 to 2027/2028 should be appointed by Public Sector Audit Appointments Ltd (PSAA), which is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.

**8. 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**

**9. Progress Report for Quarter ended 31 December 2021 (Pages 39 - 116)**

This item sets out the confidential appendices for Item 7: Progress Report for Quarter ended 31 December 2021.



|  |   |
|--|---|
| <b>REPORT TO:</b>  | <b>PENSION COMMITTEE</b><br><b>13 April 2022</b>              |
| <b>SUBJECT:</b>  | <b>Progress on implementing findings of Governance Review</b> |
| <b>LEAD OFFICER:</b>   | <b>Nigel Cook</b><br><b>Head of Pensions and Treasury</b>     |
| <b>CORPORATE PRIORITY/POLICY CONTEXT:</b><br><b>Sound Financial Management:</b> This report forms an important component of the governance arrangements for the stewardship of the Pension Fund. |   |
| <b>FINANCIAL SUMMARY:</b><br>Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.   |   |

## **1 RECOMMENDATIONS**

- 1.1 To note the progress achieved in addressing the findings of the Governance Review of June 2021.

## **2. EXECUTIVE SUMMARY**

- 2.1 This document sets out the actions recommended by the latest report of the Governance Review and discusses how these will be achieved. The positive findings of the review are highlighted and the report illustrates how these recommendations serve to ensure there is clear separation between the Scheme Administrator and the Council, as an employer.

### **DETAIL**

- 3.1 A governance review carried out by AON, the Fund's governance advisors, was commissioned by the Fund and its findings were reported in September 2019. It was envisaged that completion of the actions identified would be delivered over a 3-year period. A follow up review was carried out in June 2021. This report notes the success of the review and the positive reception from the Committee and from officers.
- 3.2 Members' attention is drawn to the significant positive actions already embedded in practices and progress made by officers in delivering the recommendations of the original review in 2019 and the latest review and should note that the pensions team are already actively working to address the remaining points covered by both reviews.
- 3.3 This latest review rated areas of practice considered as:  
  
positive – meets legal requirements, national guidance and good practice;

neutral – meets legal practice, in the main, but could be improved to meet good practice or national guidance;  
negative – requires improvement as it does not appear to meet legal requirements or practices we consider key to good governance.

3.4 Eleven elements in the latest governance review were highlighted as positive. These include:

1. The latest Funding Strategy Statement was approved by the Committee in May 2021;
2. The Funding Strategy Statement has been updated to reflect the 2020 Amendment Regulations on exit credits and sets out the Administering Authority's policy on employer flexibilities;
3. The Investment Strategy Statement was updated in March 2020 in respect of the asset allocation strategy;
4. The Compliance Policy was approved by the Committee at their meeting on 17 September;
5. The Governance Compliance Statement incorporates all the points from the 2008 guidance and has been reviewed by the Pension Committee;
6. The latest version of the Communications Policy was approved by the Committee on 17 September 2019;
7. No improvements were required to the Administration Strategy when it was last considered in 2019. However, the Strategy is now currently under review and a revised version will be issued for consultation shortly;
8. The Risk Management Policy was reconsidered and approved at the 17 March 2020 Committee;
9. Following AON Hewitt's recommendation that a single Fund Knowledge and Skills/Training Policy was created, standardising the approach for all Fund stakeholders in accordance with the SAB and CIPFA requirements; the new knowledge and skills policy was approved by Committee on 17 March 2020;
10. A business plan is in place, this is attached as Appendix A; and
11. The governance structure was rated as good in the previous 2019 review so no action was needed.

3.5 The Pensions Committee of 3rd December 2021 agreed a number of actions. These are discussed below. Where appropriate these actions will be added to the existing Action Plan and Business Plan, included in the review of the Council's Constitution or considered in the light of services offered by the National LGPS Framework.

3.6 The first recommendation is to create a Head of the Pension Fund position, accountable directly to the Pension Committee and the S151 officer for all aspects of the Fund including governance, investment and pensions administration. This is in line with evolving good practice and is an approach adopted by a number of

administering authorities. The staff restructure that followed the Report in the Public Interest created this post and the current post holder was moved into that role. This is a significant step to ensuring the separation between Pension Fund and Scheme Employer.

- 3.7 The second action is to appoint non-Council employer representatives to the Pension Committee. This requires an amendment to the Council's Constitution.
- 3.8 Next it was agreed to create an explicit policy on voting rights at the Committee. Again, as this is mentioned in the Council's Constitution an amendment to that document will be required.
- 3.9 The Committee also agreed that where services are provided by the Council, including the provision of payroll and meeting support services, to put in place service level agreements covering delivery times, volumes and price. This should be a fairly straight forward matter and negotiations can begin when resources become available and this will be added to the Committee's Action Plan.
- 3.10 The Committee asked that a 3-year financial plan covering admin, fund management and other overhead costs be compiled. This features in the Business Plan that has already been adopted and which will be updated and monitored periodically.
- 3.11 The Committee further asked for the creation of bespoke procurement and recruitment policies for the Fund. This would serve the dual purposes of allowing the Fund to take advantage of the efficiencies available from accessing the National LGPS Framework and ensuring a clear separation between the Council and the Pension Fund. Furthermore the Council, as the administering authority should proactively consider the use of third party suppliers to increase the resources available to the Fund. The Council team has considerable experience of taking this approach in the past.
- 3.12 Next the governance arrangements should be changed so that the Fund Annual Report and Accounts be reported to the Pension Committee prior to being reported to the General Purposes and Audit Committee. The Democratic Services Team will advise on how this can be made to happen.
- 3.13 The Committee asked that all negative and neutral rated items in the latest AON report be included in an updated governance review action plan. The Pension Fund Governance team review this document periodically and so can action this recommendation in short order.
- 3.14 Finally there is a recommendation that a small annual allowance should be paid to Pension Board members to reflect the increasingly onerous skills and training requirements. This is supported by the Scheme Administer and will be submitted for consideration by the appropriate governance body.

#### **4 CONSULTATION**

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

## **5 FINANCIAL CONSIDERATIONS**

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

## **6 COMMENTS OF BURGESS SALMON LLP**

Burgess Salmon LLP (a legal advisor appointed to the Pension Fund) comments that the Pension Committee's role is to ensure that the Pension Fund is properly operated in accordance with the Local Government Pension Scheme Regulations 2013. Ensuring good governance is essential for the operation of the Pension Fund.

## **7 HUMAN RESOURCES IMPACT**

There are no direct workforce implications arising from the recommendations within this report. If any should arise these will be managed under the Council's policies and procedures.

**Approved by** Gillian Bevan, Head of HR Resources and Assistant Chief Executives, on behalf of Dean Shoemith, Chief People Officer

## **8 OTHER CONSIDERATIONS**

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

## **9 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 9.1 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.

### **CONTACT OFFICER:**

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

### **BACKGROUND DOCUMENTS:**

None

### **Appendices**

Appendix A: Croydon Pension Fund, Medium Term Business Plan 2022-2025



# **CROYDON PENSION FUND**

## **Medium Term Business Plan 2022-25**

**Croydon Pension Fund  
5A Bernard Weatherill House  
8 Mint Walk  
Croydon CRO 1EA**

**Approved by Pension Committee on DD Mon 2022 (to be reviewed in March 2023)**

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## **1. INTRODUCTION**

- 1.1 The London Borough of Croydon (the Council) is the Administering Authority of the Croydon Pension Fund (the Fund), responsible for the management of the Local Government Pension Scheme (the Scheme) in its area. The Fund is one of about ninety funds in the national Scheme offering benefits on a career average basis and funded by its constituent employers, members and investment income.

## **2. PURPOSE OF THE BUSINESS PLAN**

- 2.1 Although not specifically required under Scheme regulations, it is recommended in guidance and considered best practice to have a business plan setting out the future direction of the Fund.
- 2.2 The Business Plan sets out the aims and objectives of the Fund and provides an overview of its key activities, priorities and improvements to be implemented over the medium term. It includes a review of important developments during 2021/22, the work plan of the Committee, the Board and officers for 2022/23 – 2024/25 and the planned training activity as set out in the Fund training plan. It also includes the estimated financial position over the three years' up to 2024/25.
- 2.3 The Plan enables progress and performance to be monitored in relation to priorities and is reviewed and updated annually.

## **3. GOVERNANCE AND MANAGEMENT**

- 3.1 The Council has delegated responsibility for the governance and management of the Fund to the Pension Committee and the S151 Officer. In the Council's Constitution the Purpose of the Committee is defined as:

*to discharge the responsibilities for Croydon Council in its role as lead authority for the administration of the Croydon Pension Fund*

In its role as administering authority the Council has a fiduciary duty to the employers and members of the Fund and must not compromise this with its own particular interests.

- 3.2 The Committee receives appropriate advice from the S151 Officer, the Chief People Officer, the Fund Actuary, its Investment Adviser and other officers and advisers as necessary.

3.3 The Pension Fund Team is managed by the Head of Pensions and Treasury who is supported by two sections. The Administration Section is headed by the Pensions Manager and is responsible for the day to day administration of pension benefits and the overall governance of the Fund. The Pension Investment Section is headed by the Pension Fund Investment Manager and is responsible for investment, accounting and governance matters including the production of the Annual Report and Accounts, the managing of the fund managers and overseeing the investments made through the London Collective Investment Vehicle (London CIV).

3.4 Since 2015 a Local Pension Board has been in place the purpose of which, as laid down in Regulations, is

*....to assist the Administering Authority in its role as a scheme manager of the Scheme. In particular to assist the Administering Authority to:*

- 1. secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;*
- 2. to ensure the effective and efficient governance and administration of the Scheme.*

3.5 Under the “pooling” regulations the Fund, along with all other London borough funds, is a member of the London CIV. Over the next few years it will continue to seek opportunities to transfer investments to the CIV in order to achieve reductions in investment management costs. It will continue to hold the CIV to account through its role as a shareholder.

3.6 At the request of the Pension Board, in 2015, the Fund commissioned a Governance Review from its independent Governance Adviser, Aon. During the spring and summer of 2016 the Board and Committee considered the Review and accepted the Adviser’s recommendations. The Board agreed an action plan to plot progress in their implementation. In 2019 Aon were invited to carry out a further Review to assess progress against their earlier recommendations. The Review and associated action plan was considered by the Board and Committee during late 2019 and the early part of 2020 and again in 2021. The implementation of the various recommendations plays a significant part in the work plan for 2022/23 and subsequent years.

3.7 Of the original Aon recommendations as agreed by the Committee, only a few remain outstanding as follows:

- Comply further with the CIPFA Guidance on the preparation of the Fund Annual Report;
- Prepare a Data Improvement Plan;
- Review of governance structure;;
- Further develop Fund website; including information on Committee and Board membership;
- Prepare an Internal Dispute Resolution Procedure; and

- Prepare a Record Management Policy.

Progress on all these matters will be made during 2022/23.

3.8 A further Governance Review was commissioned by the Board, carried out by Aon and reported in August 2021. This made various recommendations which were reported to the Board and Committee.

On 3 December 2021 the Committee agreed the following recommendations:

- To create a Head of the Pension Fund position, accountable directly to the Pension Committee and the S151 officer for all aspects of the Fund including governance, investment and pensions administration;
- To appoint non-Council employer representatives to the Pension Committee;
- To create an explicit policy on voting rights at the Committee that shall include enfranchising the second pensioner representative and trade union representative whilst seeking advice on the merits/demerits of increasing the number of Council members on the Committee so as to broaden experience of the Fund's activity across the Council;
- That the Committee be provided with external advice by March 2022 on creating an appropriate governance structure which distances the Fund from the Authority including consideration of the South Yorkshire Pension Fund model;
- That the Committee seeks an urgent external review of service delivery with respect to the pensions services team with suggestions of how to progress enhancement of service delivery to be enacted by March 2022;
- That the following recommendations from the Aon report be progressed with the following deadlines including:
  - Reports to Committee to be provided by March 2022 on the budget of the administration and management of the Fund and impact in changes of resources and the impact of increases in workload as well as considering succession planning;
  - That the Chair of the Pension Board write to the Chief Whips of current party groups to draw attention to the report's concerns about lack of continuity on the Committee and the Council representatives on the Board and that the outgoing Chair write in similar vein after the May 2022 municipal elections;
  - That the Committee recommends that the Council looks at appointing members to the Committee and the Board for a period of 4 years within the electoral cycle;
  - That any new Committee members will be given timely induction training to ensure they can constructively contribute to the management of the Fund as soon as possible, and that such induction training requirements, subject to Monitoring Officer advice on the legality of such obligations are clearly set out in the Fund's

- policy and that this is explained and facilitated for all new members on joining the Committee or Board;
- Note that the Chair of the Committee shall be the representative on the LCIV Stakeholder Board and will now report back on a regular basis with information from the CIV;
  - The CIV relationship structures (in line with Aon's 2019 report) shall be proposed for inclusion in the Council's Constitution, a report being expected by the Committee on this matter by March 2022;
  - As proposed in the Aon report, an investigation be made for the reasons for late papers coming to the Committee and Board and a report to be made to Committee by March 2022 on the processes that lead to papers being produced, their efficacy and legality, including the role of pre-agenda meetings;
  - That an external provider in LGPS matters is procured to draft a Conflict of Interests Policy for the Committee and the Board to be agreed by the Committee by March 2022;
  - That the Committee will carry out a check on how the Fund complies with the recommendations of the Good Governance Review and where work will be required to ensure compliance by March 2023;
  - That the Committee is provided with an evaluation against the new TPR Code requirements in due course and will address areas of partial compliance and non-compliance in a timely manner;
  - That the Committee will require a report on the updated CIPFA Code of Practice and Framework for Officers, and Committee and action taken to address;
  - Breaches of the law policy to be updated by September 2022
  - That the Committee receive a report on compliance with the Aon report on publication of the Funds policies and documents by September 2023; and
  - That the Committee are concerned to learn that "officers are being required to address Council business which is impacting on their ability to address Fund activity"
- That the Committee ask that summons to meetings be made in a timely fashion and that hard copies of papers be provided in a convenient fashion to those who request them (accepting that the cost of this will be charged to the Fund)
    - Where services are provided by the Council, including the provision of payroll and meeting support services, to put in place service level agreements covering delivery times, volumes and price.
    - To compile a 3-year financial plan covering admin, fund management and other overhead costs;
    - To review the operation of procurement and recruitment for the Fund;
    - That the administering authority should proactively consider the use of third party suppliers to increase the resources available to the Fund;
    - That the Fund Annual Report and Accounts be reported to the Pension Committee prior to being reported to the General Purposes and Audit Committee;

- To include all negative and neutral rated items in the latest Aon report into an updated governance review action plan;
- That a small annual allowance should be paid to Pension Board members to reflect the increasingly onerous skills and training requirements; and.
- Consider the progress already achieved against the original governance review actions and the new governance review actions at every alternate meeting of the Committee.

3.9 The Good Governance Review carried out by Hymans Robertson for the LGPS Scheme Advisory Board recommends that each administering authority must undergo a biennial independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

## **4. AIMS AND OBJECTIVES**

4.1 The primary objective of the Fund is to provide for members' pension and lump sum benefits on their retirement or for their dependents' benefits on death, before or after retirement on a defined benefits basis, as required by the Local Government Pension Scheme Regulations 2013 (as amended).

4.2 As set out in the Funding Strategy Statement agreed in March 2020 and revised in May 2021:

The aims of the Fund are to balance:

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

The purposes of the Fund are to:

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

The funding objectives are:

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

4.3 The key administration objectives of the Fund are to optimise performance in respect of:

- Providing all active and deferred members with annual benefits statements each year;
- Advising new Scheme members of their entry into the Scheme;
- Advising members of their calculated benefits;
- Administering transfer in and transfer out of members as required;
- Providing details of retirement benefits on request; and
- Notifying dependents of death benefits.

## **5. STATISTICS**

5.1 Key statistics as at 31 March 2021 were as follows:

- Assets of the Fund were £1,538m predominantly invested in equities, bonds, property, infrastructure and private equity;
- The Fund was 88% funded (based on 31 March 2019 data);
- The Fund had approximately 100 contributing employers;
- 10,044 members were contributing to the Fund;
- 11,532 former employees had their benefits deferred;
- 8,523 members were in receipt of a pension;
- Benefit payments in the previous year totalled £57.2m;
- Contributions from members in the previous year were £14.8m; and
- Contributions from employers in the previous year totalled £54.3m.



5.2 As at 31 March 2022 the statistics are expected to be largely similar with small percentage increases in the value of the Fund and in the expenditure and income arising from benefit payments and contributions respectively.

## **6 REVIEW OF 2021/22**

6.1 As reported in the Business Plan considered by the Committee in May 2021, once again, at the time of writing the overall impact of the Coronavirus crisis on the Fund is unclear and may never be fully understood. However, only one of the four meetings of the Committee scheduled for the year had to be cancelled and all four of the scheduled Board meetings have been held. The auditors have not yet completed their reviews of either the 2019/20 or the 2020/21 Statements of Accounts.

6.2 Nevertheless, most of the normal routines were successfully completed including the regular monitoring of investment and administration performance, the distribution of annual benefit statements and the consideration of various policy statements, the Risk Register and the Breaches of the Law log.

Specific projects included:

- Funding Strategy Statement update;
- Reconsideration of property transfer proposal;
- Government Actuary's Department Review of 2019 Actuarial Valuation;
- Environmental, Social and Governance Policy;
- Independent Governance Review;
- Employer Contribution Review;
- Governance Consulting Contract; and
- London CIV – Compliance with pooling requirements

## **7. WORK PROGRAMME**

7.1 The work programme for Members, officers and advisers can be separated between routine day to day duties and less frequent one-off tasks. Paragraph 7.2 provides details of the former, largely the responsibility of officers, and Paragraph 7.3 details of the latter. Each of these is split into the following categories - "Governance," "Funding," "Investments" and "Administration."

### **7.2 Routine duties**

#### Governance

- Support the Pension Committee and Pension Board;
- Implement the Governance Action Plan;
- Prepare and publish the Fund's Annual Report and Accounts;
- Assist in the preparation of the Pension Board Annual Report;
- Monitor the Fund's revenue budget;
- Monitor achievement of the Fund's Business Plan;

- Carry out routine accountancy duties including cash flow and treasury management, monitoring of income and expenditure and preparing statutory and non-statutory returns;
- Implement various governance policies including Training Policy, Risk Management Policy, Breaches of the Law Policy and relevant codes of practice;
- Prepare reports for Committee and Board;
- Create and implement a training plan for the Committee and Board;
- Answer audit and Freedom of Information Act queries;
- Complete the annual “The Pensions Regulator” return;
- Make arrangements for bulk transfers, process academy conversions, and new scheduled and admitted bodies;
- Organise and facilitate Employers Forum, other communications and advice and other relevant relationships;
- Monitor and report on contributions; and
- Facilitate arrangements for the appointment of non-Councillor representatives on the Pension Committee and Pension Board.

#### Funding

- Agree funding strategy with actuary;
- Consult with employers as appropriate;
- Assist the actuary by providing data as required;
- Provide data to Government Actuary’s Department as required; and
- Monitor employers’ covenants as required;

#### Investments

- Monitor investment performance and produce quarterly review reports for Committee;
- Appoint, monitor and dismiss fund managers as appropriate;
- Monitor the Fund’s investment risk management framework;
- Work with all other London boroughs as a member of the London CIV;
- Meet investment managers in rotation;
- Implement Scheme Advisory Board Code of Transparency and analysis of investment costs; and
- Engage with fund managers on their approach to responsible investment.

#### Administration

- Provide information to Scheme members and their beneficiaries as they join, leave or change their status in the Fund;
- Calculate and notify entitlements to retirement, leaving and death benefits;
- Process individual transfers into and out of the Fund;

- Provide ad hoc information to members, their representatives or their beneficiaries;
- Maintain accurate scheme member records;
- Provide data for employers under FRS102;
- Administer pension increase;
- Issue Annual Benefit Statements;
- Develop information technology efficiencies;
- Maintain and operate auto-enrolment arrangements;
- Maintain and publicise members self-service facilities;
- Maintain the Fund's Internal Dispute Resolution Procedure; and
- Advise members on annual allowance.

7.3 The more "project" based work programme for Members, officers and advisers envisaged over the next three years will be along the following lines.

|  | <b>2022/23</b>   | <b>2023/24</b> | <b>2024/25</b> |
|--|------------------|----------------|----------------|
| <b>Governance</b>                                    |                  |                |                |
| Review implementation of Governance Action Plan      | Ongoing          | Ongoing        | Ongoing        |
| Review Business Plan                                 | March            | March          | March          |
| Review Governance Policy and Compliance Statement    | September        |                |                |
| Review Governance Best Practice Compliance Statement | March            | March          | March          |
| Review Communications Policy                         | September        |                |                |
| Review Administration Strategy                       |                  |                | March          |
| Review Internal Disputes Resolution Procedure        | January to March |                |                |
| Review Conflicts of Interest Policy                  |                  |                | March          |
| Review Breaches of the Law Policy / Procedure        | September        |                |                |
| Review Administering Authority Discretionary Policy  |                  |                | March          |
| Review Risk Management Policy and Strategy           | March            |                |                |

|   |                      |               |                  |
|---|----------------------|---------------|------------------|
| Review Knowledge and Skills/ Training Policy  | April                |               |                  |
| Review budget including CIV costs   | March                | March         | March            |
| Review CIV relationship structures  | July                 |               |                  |
| Review Fund Actuary contract  |                      | April to June |                  |
| Review Governance Consultancy contract  |                      |               | January to March |
| Monitor performance of Investment Adviser against agreed strategic objectives       | Ongoing              | Ongoing       | Ongoing          |
| Respond to legislative changes  | As required          | As required   | As required      |
| Scheme Advisory Board Good Governance Review  | March                |               |                  |
| Respond to reports of Scheme Advisory Board and The Pensions Regulator              | Ongoing              | Ongoing       | Ongoing          |
| Review staffing numbers and structure   | Ongoing              | Ongoing       | Ongoing          |
|   |                      |               |                  |
| <b>Funding</b>  |                      |               |                  |
| Triennial valuation consultations and calculations                                  | May to December      |               |                  |
| Consultations and calculations for employers rates arising from triennial valuation | November to December |               |                  |
| Triennial valuation certificate issued  | March                |               |                  |
| Prepare Funding Strategy Statement  | November to March    |               |                  |
| Interim valuation   |                      |               | As required      |
|   |                      |               |                  |
| <b>Investments</b>  |                      |               |                  |
| Review Investment Strategy Statement  | March                |               |                  |
| Carry out asset allocation review and investigate new investment vehicles           | Ongoing              | Ongoing       | Ongoing          |

|   |                 |             |             |
|---|-----------------|-------------|-------------|
| Develop Environmental, Social and Governance investment policy        | Ongoing         | Ongoing     | Ongoing     |
| Comply with “pooling” requirements                                    | Ongoing         | Ongoing     | Ongoing     |
| Review savings achieved by CIV  | July            | July        | July        |
|   |                 |             |             |
| <b>Administration</b>   |                 |             |             |
| Triennial valuation – consultation with and results to employers      | May to February |             |             |
| Review Employer (admission/cessation/bulk transfer) Policy            |                 |             | December    |
| Implement implications of McCloud judgement                           | As required     | As required | As required |
| Review Record Management Policy                                       | September       |             |             |
| Review Business Continuity Plan                                       |                 | April       |             |
| Review Committee administration                                       | July            |             |             |
| Monitor Key Performance Indicators                                    | Ongoing         | Ongoing     | Ongoing     |
| Produce Data Improvement Plan   | December        |             |             |
| Focus on information technology efficiencies                          | Ongoing         | Ongoing     | Ongoing     |
| Review any service areas failing to meet agreed performance standards | As required     | As required | As required |
| Review staffing structure to respond to increasing demands            | As required     | As required | As required |
| Recruitment and Retention Policy                                      | July            |             |             |
| Roll-out of I-connect project   | Ongoing         |             |             |
| Develop use of Employer Relationship Management software              | Ongoing         |             |             |

7.4 Progress on relevant parts of the Programme will be regularly reported to meetings of the Committee and Board.

7.5 Programmes of work arising from the Business Plan specific to the Committee and the Board will be presented to the two bodies as an updated Forward Plan.

## 8. INVESTMENTS

8.1 As at the end of December 2021 the Fund had £1,748.6m assets under management by 15 different fund managers investing in equities, bonds, property, infrastructure and private equity.

8.2 The Fund's asset allocation is shown in the table below.

| <b>Fund Manager</b>   | <b>Managed by CIV</b>     | <b>Value at 31 December 2021</b> | <b>Actual Allocation</b> | <b>Strategic Allocation</b> |
|-----------------------|---------------------------|----------------------------------|--------------------------|-----------------------------|
|                       |                           | <b>£m</b>                        | <b>%</b>                 | <b>%</b>                    |
| <b>Equities</b>       |                           |                                  |                          |                             |
| LGIM                  | Counts towards allocation | 721.7                            |                          |                             |
| RBC                   | Yes                       | 92.9                             |                          |                             |
| <b>Total</b>          |                           | <b>814.6</b>                     | <b>46.6</b>              | <b>42.0</b>                 |
| <b>Fixed Interest</b> |                           |                                  |                          |                             |
| Aberdeen              |                           | 139.6                            |                          |                             |
| Wellington            |                           | 71.6                             |                          |                             |
| PIMCO                 | Yes                       | 94.5                             |                          |                             |
| <b>Total</b>          |                           | <b>305.7</b>                     | <b>17.5</b>              | <b>23.0</b>                 |
| <b>Property</b>       |                           |                                  |                          |                             |
| Schroders             |                           | 148.2                            |                          |                             |
| M & G                 |                           | 63.3                             |                          |                             |
| <b>Total</b>          |                           | <b>211.5</b>                     | <b>12.1</b>              | <b>16.0</b>                 |
| <b>Private Equity</b> |                           |                                  |                          |                             |
| Pantheon              |                           | 73.3                             |                          |                             |
| Knightsbridge         |                           | 65.3                             |                          |                             |
| Access                |                           | 22.8                             |                          |                             |
| North Sea Capital     |                           | 15.1                             |                          |                             |
| <b>Total</b>          |                           | <b>176.5</b>                     | <b>10.1</b>              | <b>8.0</b>                  |
| <b>Infrastructure</b> |                           |                                  |                          |                             |
| Equitix               |                           | 75.2                             |                          |                             |
| Temporis              |                           | 57.8                             |                          |                             |
| GIGM                  |                           | 22.1                             |                          |                             |
| Access                |                           | 29.7                             |                          |                             |

|              |  |                |              |              |
|--------------|--|----------------|--------------|--------------|
| I Squared    |  | 23.7           |              |              |
| <b>Total</b> |  | <b>208.5</b>   | <b>11.9</b>  | <b>10.0</b>  |
|              |  |                |              |              |
| <b>Cash</b>  |  | <b>31.8</b>    | <b>1.8</b>   | <b>1.0</b>   |
|              |  |                |              |              |
| <b>TOTAL</b> |  | <b>1,748.6</b> | <b>100.0</b> | <b>100.0</b> |

## 9. CASHFLOW

9.1 The table below summarises the relatively predictable items of income and expenditure included in the Fund Annual Accounts. The figures in respect of "Contributions receivable" are based on current assumptions and are likely to change when the results of the latest triennial valuation are received.

|                          | <b>2020/21<br/>Actual</b> | <b>2021/22<br/>Forecast<br/>Actual</b> | <b>2022/23<br/>Estimate</b> | <b>2023/24<br/>Estimate</b> | <b>2024/25<br/>Estimate</b> |
|--------------------------|---------------------------|--|-----------------------------|-----------------------------|-----------------------------|
|                          | <b>£'000</b>              | <b>£'000</b>                           | <b>£'000</b>                | <b>£'000</b>                | <b>£'000</b>                |
| Contributions receivable | 69,056                    | 65,000                                 | 66,000                      | 67,000                      | 68,000                      |
| Benefits payable         | -47,837                   | -51,000                                | -54,000                     | -56,000                     | -58,000                     |
| Management expenses*     | -14,561                   | -17,230                                | -18,195                     | -18,970                     | -19,880                     |
| Investment income        | 7,309                     | 8,000                                  | 8,500                       | 9,000                       | 9,500                       |
| <b>Net income (-)</b>    | <b>13,967</b>             | <b>4,770</b>                           | <b>2,305</b>                | <b>1,030</b>                | <b>-380</b>                 |

\*See table in paragraph 10.1 below

There are several items within the Fund Accounts which have a significant impact on the financial status of the Fund but which cannot be estimated with confidence. As an indication, these are detailed below for the years 2020/21 and 2021/22.

|  | <b>2020/21<br/>Actual</b> | <b>2021/22<br/>Forecast<br/>Actual</b> |
|--|---------------------------|--|
|  | <b>£'000</b>              | <b>£'000</b>                           |
| Individual transfers in from other funds                         | 8,002                     | 7,000                                  |
| Bulk transfers in  |                           | 18,500                                 |
| Individual transfers out to other funds                          | -7,031                    | -10,000                                |
| Commutations, refunds and lump sum retirement and death benefits | -9,374                    | -10,000                                |

## 10. RESOURCES

### Finance

10.1 The following table provides actuals and estimates of the Fund Management Expenses over the five years from 2020/21. Apart from payroll all management services are carried out in-house by Council staff

|                                     | <b>2020/21<br/>Actual</b> | <b>2021/22<br/>Forecast<br/>Actual</b> | <b>2022/23<br/>Estimate</b> | <b>2023/24<br/>Estimate</b> | <b>2024/25<br/>Estimate</b> |
|-------------------------------------|---------------------------|--|-----------------------------|-----------------------------|-----------------------------|
|                                     | <b>£'000</b>              | <b>£'000</b>                           | <b>£'000</b>                | <b>£'000</b>                | <b>£'000</b>                |
| <b>Administration</b>               |                           |  |                             |                             |                             |
| System fees                         | 391                       | 410                                    | 430                         | 450                         | 475                         |
| Staff costs                         | 724                       | 740                                    | 780                         | 830                         | 880                         |
| Payroll<br>administration           | 230                       | 235                                    | 240                         | 245                         | 250                         |
| Other (net)                         | 23                        | 25                                     | 25                          | 25                          | 25                          |
| <b>Total</b>                        | <b>1,368</b>              | <b>1,410</b>                           | <b>1,475</b>                | <b>1,550</b>                | <b>1,630</b>                |
|                                     |                           |  |                             |                             |                             |
| <b>Oversight and<br/>Governance</b> |                           |  |                             |                             |                             |
| Staff costs                         | 501                       | 510                                    | 530                         | 560                         | 590                         |
| Actuarial costs<br>(net)            | 130                       | 130                                    | 250                         | 150                         | 150                         |
| External audit fees                 | 25                        | 25                                     | 25                          | 25                          | 25                          |
| Memberships                         | 8                         | 10                                     | 10                          | 10                          | 10                          |
| Investment and<br>governance advice | 111                       | 120                                    | 150                         | 120                         | 120                         |
| Legal advice                        | 70                        | 70                                     | 50                          | 50                          | 50                          |
| Rebate                              | -27                       |  |                             |                             |                             |
| <b>Total</b>                        | <b>818</b>                | <b>865</b>                             | <b>1,015</b>                | <b>915</b>                  | <b>945</b>                  |
|                                     |                           |  |                             |                             |                             |
| <b>Investment<br/>Management</b>    |                           |  |                             |                             |                             |
| Management fees                     | 12,270                    | 14,850                                 | 15,600                      | 16,400                      | 17,200                      |
| Custodian fees                      | 105                       | 105                                    | 105                         | 105                         | 105                         |
| <b>Total</b>                        | <b>12,375</b>             | <b>14,955</b>                          | <b>15,705</b>               | <b>16,505</b>               | <b>17,305</b>               |
|                                     |                           |  |                             |                             |                             |
| <b>TOTAL</b>                        | <b>14,561</b>             | <b>17,230</b>                          | <b>18,195</b>               | <b>18,970</b>               | <b>19,880</b>               |



## Staff

10.2 In 2022/23 the Fund has budget for the following staffing resource available to deliver the Plan

|                               | FTE | Vacancies |
|-------------------------------|-----|-----------|
| Head of Treasury and Pensions | 1   |           |
| Pensions Manager              | 1   |           |
| Investment and Accounting     | 3   | 2         |
| Administration                | 14  | 2         |
| Governance & Compliance       | 2   | 3         |
| Technical Support             | 2   |           |
| TOTAL                         | 23  | 7         |

10.3 There are currently a number of developing issues each having or likely to have a significant impact on the management of the Scheme including:

- Implications of the McCloud judgement;
- Exit cap changes;
- Scheme Advisory Board Good Governance Review; and
- The Pensions Regulator's new Code of Practice.
- CIPFA Knowledge and Skills Framework
- Goodwin Case
- Covid Impact
- Section 114 impact
- Severance / Redundancy exercises
- Service Level Agreements and/or external provision for services to the Fund (eg Democratic Services and Legal Services)

During the year both the staffing structure and numbers will be reviewed to ensure that the Fund is able to cope with the increasing demands being placed upon it.

10.4 Arrangements for staff recruitment and retention, succession planning, procurement and the provision of specialist services will also be reviewed.

10.5 In order to make the optimum contribution to the delivery and administration of Fund services staff have:

- Regular one-to-one meetings to review progress and to identify development issues
- Opportunities to put forward ideas and suggestions to help to shape the future development of the service

## **11. TRAINING AND DEVELOPMENT**

- 11.1 The CIPFA Knowledge and Skills Framework and a Knowledge and Skills / Training Policy have been adopted by Fund.
- 11.2 Members of both the Pension Committee and the Board and officers are given a range of opportunities to develop their skills in keeping with the Framework. These include on-line programmes provided by Hymans Robertson and events hosted by the Local Government Association
- 11.3 Training opportunities are provided at meetings of the Committee and Board.
- 11.4 The Fund is a member of the CIPFA Pensions Network which gives officers access to an extensive programme of events, training, weekly newsletters and documentation including briefing notes on the latest topical issues. Officers attend quarterly forum meetings with peers from other London boroughs which provide further access to opportunities for knowledge sharing and benchmarking data.
- 11.5 Officers also attend seminars arranged by fund managers and other third parties who specialise in public sector pensions. Any relevant sessions are shared with the Committee and Board members.

## **12. KEY POLICY DOCUMENTS**

- 12.1 Key policy documents which support the Business Plan and, in turn, are supported by it which can be found on the Fund's website include:
- Administration Strategy
  - Annual Report and Accounts
  - Breaches of the Law Policy
  - Business Plan
  - Business Continuity Plan
  - Communications Policy Statement
  - Conflicts of Interest Policy
  - Data Improvement Plan
  - Discretions Policy
  - Employer (admission / cessation / bulk transfer Policy
  - Forward Plan
  - Funding Strategy Statement
  - Governance Policy and Compliance Statement
  - Internal Disputes Resolution Procedure
  - Investment Strategy Statement
  - Knowledge and Skills Policy
  - Record Management Policy
  - Risk Management Strategy
  - Triennial Valuation Report

|  |   |
|--|---|
| <b>REPORT TO:</b>  | <b>PENSION COMMITTEE</b><br><b>13 April 2022</b>          |
| <b>SUBJECT:</b>  | <b>Asset Allocation</b>                                   |
| <b>LEAD OFFICER:</b>   | <b>Nigel Cook</b><br><b>Head of Pensions and Treasury</b> |
| <b>CORPORATE PRIORITY/POLICY CONTEXT:</b>  |   |
| <p><b>Sound Financial Management:</b> This report relates to the statutory process that ensures the Pension Fund will be adequately funded to meet future pension benefit liabilities.</p> |   |
| <b>FINANCIAL SUMMARY:</b>  |   |
| <p>Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.</p>   |   |

|          |                        |
|----------|------------------------|
| <b>1</b> | <b>RECOMMENDATIONS</b> |
| 1.1      | To note the report.    |

## 2. EXECUTIVE SUMMARY

- 2.1 This report describes the processes which will run during the rest of the year, culminating in the actuarial valuation results. The report outlines the impact of other factors on the valuation.

### DETAIL

- 3.1 Built in to the Local Government Pension Scheme regulations are a set of checks and balances to ensure the future viability of the Scheme. These ensure that there is an acceptable level of likelihood that there will be sufficient funds in the Pension Fund to meet the Scheme's obligation to pay benefits, as set out in the regulations, at the moment and in the future. Conversely the structure allows the level of risk of there being insufficient funds to be measured and understood. This process culminates in the contribution levels set by the triennial actuarial valuation – these are employer contribution rates; staff contributions are set by the regulations. In parallel with the work undertaken by the Scheme Actuary, the asset allocation strategy is assessed to ensure that, in a number of scenarios, the investments comprising the Fund will generate a return sufficient that there is an acceptable likelihood that the investments will grow at a rate sufficient that liabilities can be met from these investments but also that the funding gap, the deficit, will be closed within a reasonable period of time, currently 20 years. In addition, reflecting stake-holders concerns about issues around climate change, the climate emergency, and net zero carbon as well as Socially responsible investment, and Corporate Governance issues, there needs to be a policy and plans to deliver measurable outcomes to deliver these. Finally, these processes all need to be understood and viewed through the lens of the government's pooling agenda and the role of the London Collective Investment Vehicle (the London CIV).

- 3.2 In effect this means that each administering authority needs to run four processes alongside each other. These processes relate to the Triennial Actuarial valuation and the assessment at the Whole Fund level; a review of the asset allocation and the suitability of the asset mix to deliver a target return under a range of critical scenarios; a measure of the extent to which the Pension Fund's Environment, Social and Corporate Governance policy is realistic and will deliver the intended outcomes; and finally a measure of the extent to which this can be delivered by the London CIV, according to the government guidance. The overall timeframe for this is quite tight.
- 3.3 Before considering a realistic and achievable timetable a measure of the resources that will be required would be helpful. Work has started on assembling the data for the next triennial valuation. The actuary will put on training sessions for the committee to ensure the principles underpinning the valuation are understood. The investment advisors will model a number of different economic scenarios to assess the fit of the current or proposed asset allocation. The London CIV will be brought into these discussions to allow them to see the extent to which their offering and investment philosophy matches Croydon's policies. Clearly a number of processes have to happen in parallel and this will involve the scheme Actuary, the investment advisor and also the officer team.
- 3.4 The Committee will need to understand and agree a number of key measures. The portfolio consists of investments in different asset classes each of which portrays different characteristics under different circumstances. Taken as a whole an assessment of the potential performance of these assets provides a measure of the Committee's Risk appetite and a return goal – currently 4% p.a. This measure will take into consideration the reduction in employer contributions from the Council in the last and current years. The Committee has set ESG and SRI goals and they will consume part of the risk budget mentioned above.
- 3.5 A final point in respect of external factors that will need to be considered. More than ever in the recent period, the Committee will need to form a view on how it assesses a number of micro-economic factors. It is likely that the next period will see global volatility in all markets but in particular the Committee will need to consider the destabilising impact on the global economy of Russia invading Ukraine; the impact of Brexit working its way through the UK economy; the fuel crisis; the continued influence of the growth of the Chinese economy; global inflation and the commensurate increase of interest rates. Depending on corporate policy the short-term liquidity of the Fund may also be a significant factor. The indicator flagged by the recent White Paper and the letter from the Secretary of State that LGPS Funds should be directed to local infrastructure projects will also need to be taken into consideration.
- 3.6 To summarise this process, here are the steps of the actuarial valuation, at a high level: the other processes discussed will be incorporated into the Forward Plan.

**June 2022**

Training on the Triennial Valuation and a discussion around the actuarial assumptions.

**September 2022**

Whole Fund valuation results.

**March 2023**

Final Funding Strategy Statement, Actuarial Valuation results and contribution rates.

## **4 CONSULTATION**

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

## **5 FINANCIAL CONSIDERATIONS**

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

## **6 COMMENTS OF BURGESS SALMON LLP**

- 6.1 Burges Salmon LLP (a legal advisor appointed to the Pension Fund) comments that the Pension Committee's role is to ensure that the Pension Fund is properly operated in accordance with the Local Government Pension Scheme Regulations 2013. The triennial valuation is a statutory requirement and helps to ensure the Pension Fund is adequately funded to meet future pension benefit liabilities.

## **7 HUMAN RESOURCES IMPACT**

- 7.1 There are no direct workforce implications arising from the recommendations within this report. If any should arise these will be managed under the Council's policies and procedures.

Approved by Gillian Bevan, Head of HR Resources and Assistant Chief Executives, on behalf of Dean Shoemith, Chief People Officer

## **8 OTHER CONSIDERATIONS**

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

## **9 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 9.1 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.

### **CONTACT OFFICER:**

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

### **BACKGROUND DOCUMENTS:**

None

### **Appendices**

None

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| <b>REPORT TO:</b>   | <b>PENSION COMMITTEE</b><br><b>13 April 2022</b>          |
| <b>SUBJECT:</b>   | <b>Appointment of External Auditors</b>                   |
| <b>LEAD OFFICER:</b>  | <b>Nigel Cook</b><br><b>Head of Pensions and Treasury</b> |
| <b>CORPORATE PRIORITY/POLICY CONTEXT:</b><br><b>Sound Financial Management:</b> This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.                                    |   |
| <b>FINANCIAL SUMMARY:</b><br>The External Audit plan of work in relation to the 2020/21 year is currently estimated to cost £25,000 and appropriate provision has been made within the budget set out in the Pension Business Plan. |   |

|          |  |
|----------|--|
| <b>1</b> | <b>RECOMMENDATIONS</b><br><br>1.1 The Committee is asked to note that the auditors for the pension fund for the audit years 2023/2024 to 2027/2028 will be appointed by Public Sector Audit Appointments Ltd (PSAA), which is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association. |
|----------|--|

## 2. EXECUTIVE SUMMARY

- 2.1 Under the Local Audit and Accountability Act 2014, the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies. The Act also provided for the appointment by the secretary of state of a 'sector led body' to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it. The Public Sector Audit Appointments (PSAA) is approved by the DCLG to be a sector led body for principal authorities – councils, police and fire bodies.

### DETAIL

- 3.1 Prior to its final abolition in March 2015, external auditors for local authorities and NHS trusts were appointed by the Audit Commission. The auditor appointed for Croydon Council and for its pension fund at this time was Grant Thornton and they remained as the external auditors, with these contracts being novated from the Audit Commission to PSAA on 1 April 2015. The contracts were due to expire following conclusion of the audits of 2016/17 accounts, but were extended for a period of one year to allow the audits of principal local government bodies to include the audit of 2017/18 accounts.

- 3.2 On 17 October 2016, Full Council resolved that, ‘that the external auditor for the Council and for the pension fund should be appointed by Public Sector Audit Appointments Ltd (PSAA), which is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.’
- 3.3 The PSAA subsequently appointed Grant Thornton as auditor for Croydon Council and for its pension fund for the duration of a five-year appointing period. This current appointing period covers the audits of the accounts for 2018/19 to 2022/23. The fee scales for each year are published by the PSAA on its website and these are £16,170 for the London Borough of Croydon 2020/21 pension fund audits.
- 3.3 The appointment of the next external auditor for the pension fund must be completed by 31st December 2022 and will be for up to 5 years. This can be achieved in two different ways. The choice of which route to take has to be made by Full Council and cannot be delegated. The options, which are set out in more detail in sections 4 and 5 below, are:
- 3.3.1 To establish an auditor panel to advise on appointment, with the final decision again being made by Full Council. Authorities can work collaboratively, sharing a panel if they choose.
- 3.3.2 To follow a sector led approach by which an ‘appointing person’ operates a nationwide procurement and appoints on the Council’s behalf. PSAA was specified as an appointing person by the Secretary of State in July 2016 for this purpose.

### **APPOINTMENT BY AN AUDITOR PANEL**

- 4.1 An Auditor Panel has a majority of independent, non-elected members and is chaired by an independent non-elected member. The rules about independence are very specific and must comply with The Local Audit (Auditor Panel Independence) Regulations 2014. The panel can be an existing committee or sub-committee of an existing committee provided that the membership criteria are met.
- 4.2 In view of the likely value of a contract for external audit provision a full procurement would be required which the panel would oversee. Then the committee would make a recommendation to Full Council which is the body that would make the final decision.
- 4.3 Once the external auditor is appointed the panel continues to have roles in monitoring the auditor’s performance, ensuring the auditor’s independence and in the event of any relationship problems with members or officers.

### **APPOINTMENT BY THE SECTOR LED ROUTE**

- 5.1 In July 2016, PSAA was specified as a designated person for the purposes of making external audit appointments. They are the only body to be designated as such. As part of the transitional arrangements moving from the Audit Commission, PSAA has been managing the existing novated external audit contracts.
- 5.2 Full Council has decided to opt for this route and the Council has signed-up with PSAA to take part in the scheme. PSAA will now carry out the EU procurement on



behalf of all councils and NHS trusts that have signed up with them and would then allocate external auditors, probably on a geographic basis as has happened in the past.

- 5.3 PSAA is the body that would support the external auditor's independence and would be involved if there were relationship problems. Monitoring the work of the external auditor would be undertaken by the General Purposes & Audit Committee as it currently is.
- 5.4 PSAA is the contracting authority, so there is no procurement by the Council. The fees paid for the audit service would include PSAA's costs. It is however a non-profit making organisation and if any surpluses were achieved these would be returned to the scheme members.
- 5.5 This route is the most straightforward and least resource intensive. It enables the achievement of more competitive prices because of the volume being procured. In the event of a breakdown of the relationship or poor auditor performance, PSAA would be able to replace the auditor with another that it has contracted with without the cost implications or interruption of service which might be experienced if the Council contracted with a single supplier via the route described in Section 4 above.

## **CONCLUSION**

- 6.1 The Pension Committee is asked to note that the Council has concluded that the sector led approach is the most appropriate option for the Council to follow and that it has approved a sector led approach.

## **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 governance of the Council's Pension Fund.

## **6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

**Approved by:** .

### **Human Resources Impact:**

There are no direct workforce implications arising from the recommendations within this report. If any should arise these will be managed under the Council's policies and procedures.

**Approved** by Gillian Bevan, Head of HR Resources and Assistant Chief Executives, on behalf of Dean Shoemith, Chief People Officer

## **7 OTHER CONSIDERATIONS**

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

## **8 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 8.1** 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.

### **CONTACT OFFICER:**

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

### **BACKGROUND DOCUMENTS:**

None

### **Appendices**

None

|   |   |
|---|---|
| <b>REPORT TO:</b>   | <b>PENSION COMMITTEE</b><br><b>13 April 2022</b>          |
| <b>SUBJECT:</b>   | <b>Appointment of External Auditors</b>                   |
| <b>LEAD OFFICER:</b>  | <b>Nigel Cook</b><br><b>Head of Pensions and Treasury</b> |
| <b>CORPORATE PRIORITY/POLICY CONTEXT:</b><br><b>Sound Financial Management:</b> This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.                                    |   |
| <b>FINANCIAL SUMMARY:</b><br>The External Audit plan of work in relation to the 2020/21 year is currently estimated to cost £25,000 and appropriate provision has been made within the budget set out in the Pension Business Plan. |   |

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| <b>1</b> | <b>RECOMMENDATIONS</b><br><br>1.1 The Committee is asked to note that the auditors for the pension fund for the audit years 2023/2024 to 2027/2028 will be appointed by Public Sector Audit Appointments Ltd (PSAA), which is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association. |
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## 2. EXECUTIVE SUMMARY

- 2.1 Under the Local Audit and Accountability Act 2014, the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies. The Act also provided for the appointment by the secretary of state of a 'sector led body' to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it. The Public Sector Audit Appointments (PSAA) is approved by the DCLG to be a sector led body for principal authorities – councils, police and fire bodies.

### DETAIL

- 3.1 Prior to its final abolition in March 2015, external auditors for local authorities and NHS trusts were appointed by the Audit Commission. The auditor appointed for Croydon Council and for its pension fund at this time was Grant Thornton and they remained as the external auditors, with these contracts being novated from the Audit Commission to PSAA on 1 April 2015. The contracts were due to expire following conclusion of the audits of 2016/17 accounts, but were extended for a period of one year to allow the audits of principal local government bodies to include the audit of 2017/18 accounts.

- 3.2 On 17 October 2016, Full Council resolved that, ‘that the external auditor for the Council and for the pension fund should be appointed by Public Sector Audit Appointments Ltd (PSAA), which is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.’
- 3.3 The PSAA subsequently appointed Grant Thornton as auditor for Croydon Council and for its pension fund for the duration of a five-year appointing period. This current appointing period covers the audits of the accounts for 2018/19 to 2022/23. The fee scales for each year are published by the PSAA on its website and these are £16,170 for the London Borough of Croydon 2020/21 pension fund audits.
- 3.3 The appointment of the next external auditor for the pension fund must be completed by 31st December 2022 and will be for up to 5 years. This can be achieved in two different ways. The choice of which route to take has to be made by Full Council and cannot be delegated. The options, which are set out in more detail in sections 4 and 5 below, are:
- 3.3.1 To establish an auditor panel to advise on appointment, with the final decision again being made by Full Council. Authorities can work collaboratively, sharing a panel if they choose.
- 3.3.2 To follow a sector led approach by which an ‘appointing person’ operates a nationwide procurement and appoints on the Council’s behalf. PSAA was specified as an appointing person by the Secretary of State in July 2016 for this purpose.

### **APPOINTMENT BY AN AUDITOR PANEL**

- 4.1 An Auditor Panel has a majority of independent, non-elected members and is chaired by an independent non-elected member. The rules about independence are very specific and must comply with The Local Audit (Auditor Panel Independence) Regulations 2014. The panel can be an existing committee or sub-committee of an existing committee provided that the membership criteria are met.
- 4.2 In view of the likely value of a contract for external audit provision a full procurement would be required which the panel would oversee. Then the committee would make a recommendation to Full Council which is the body that would make the final decision.
- 4.3 Once the external auditor is appointed the panel continues to have roles in monitoring the auditor’s performance, ensuring the auditor’s independence and in the event of any relationship problems with members or officers.

### **APPOINTMENT BY THE SECTOR LED ROUTE**

- 5.1 In July 2016, PSAA was specified as a designated person for the purposes of making external audit appointments. They are the only body to be designated as such. As part of the transitional arrangements moving from the Audit Commission, PSAA has been managing the existing novated external audit contracts.
- 5.2 Full Council has decided to opt for this route and the Council has signed-up with PSAA to take part in the scheme. PSAA will now carry out the EU procurement on

behalf of all councils and NHS trusts that have signed up with them and would then allocate external auditors, probably on a geographic basis as has happened in the past.

- 5.3 PSAA is the body that would support the external auditor's independence and would be involved if there were relationship problems. Monitoring the work of the external auditor would be undertaken by the General Purposes & Audit Committee as it currently is.
- 5.4 PSAA is the contracting authority, so there is no procurement by the Council. The fees paid for the audit service would include PSAA's costs. It is however a non-profit making organisation and if any surpluses were achieved these would be returned to the scheme members.
- 5.5 This route is the most straightforward and least resource intensive. It enables the achievement of more competitive prices because of the volume being procured. In the event of a breakdown of the relationship or poor auditor performance, PSAA would be able to replace the auditor with another that it has contracted with without the cost implications or interruption of service which might be experienced if the Council contracted with a single supplier via the route described in Section 4 above.

## **CONCLUSION**

- 6.1 The Pension Committee is asked to note that the Council has concluded that the sector led approach is the most appropriate option for the Council to follow and that it has approved a sector led approach.

## **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 governance of the Council's Pension Fund.

## **6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

**Approved by:** .

### **Human Resources Impact:**

There are no direct workforce implications arising from the recommendations within this report. If any should arise these will be managed under the Council's policies and procedures.

**Approved** by Gillian Bevan, Head of HR Resources and Assistant Chief Executives, on behalf of Dean Shoemith, Chief People Officer

## **7 OTHER CONSIDERATIONS**

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

## **8 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 8.1** 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.

### **CONTACT OFFICER:**

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### **BACKGROUND DOCUMENTS:**

None

### **Appendices**

None

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