

Croydon Council

REPORT TO:	Pension Committee 17 September 2019
SUBJECT:	Preparing for Brexit Risks
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Resources
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms a component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Potential risks to the Pension Fund arising from Brexit may be 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 advice provided by The Pensions Regulator entitled "Prepare your DB scheme for Brexit" and the current position of the Fund thereon.

2. EXECUTIVE SUMMARY

- 2.1 This report presents for the Committee's consideration advice provided by The Pensions Regulator entitled "Prepare your DB scheme for Brexit" and the current position of the Fund thereon.

3 DETAIL

- 3.1 On its website The Pensions Regulator has provided advice entitled "Prepare your DB scheme for Brexit." Although this advice is non-specific in that it addressed to any Defined Benefit (DB) Scheme, it is relevant to the LGPS.
- 3.2 Set out below are extracts from the advice followed by comments that describe what has been done in relation to the Croydon LGPS Fund. Extracts from the Pensions Regulator guidance are set out below in italics. The guidance is prefaced thus: 'Trustees of defined benefit (DB) pension schemes should focus

on areas such as investment, employer covenant and administration as the UK prepares to leave the EU. We (the Pensions Regulator) expect trustees to focus on the areas below as well as any other scheme-specific issues.'

Investments

- 3.3 *'Pensions are long-term investments. Although market volatility may affect your scheme's funding position, try to avoid making any knee-jerk decisions and not focus too much on short-term market movements.'*
- 3.4 The Fund fully recognises that the provision of pensions requires a long-term investment strategy and has adopted an Investment Strategy (published as the Investment Strategy Statement) accordingly. The Statement is regularly reviewed by the Pension Committee as advised by Council officers, the Fund Actuary and its Investment Adviser. All investment decisions are taken in accordance with the Strategy and are not impacted by short-term market movements.
- 3.5 *'Where you have concerns over the short-term performance of your scheme investments, you should ask your investment adviser to explain any such changes in the context of your schemes' overall investment strategy.'*
- 3.6 The Fund receives quarterly reports from its investment managers and Investment Adviser which explain both short term market movements and long-term trends. The Investment Adviser explains the issues at each meeting of Pension Committee. From time to time, face-to-face meetings are held with each of the investment managers.
- 3.7 *'Your investment adviser should help you understand the potential risks to your scheme investments from Brexit and whether specific actions or mitigations are appropriate.'*
- 3.8 The Fund's Investment Adviser has commented when appropriate on the impact of Brexit e.g. on the effect on the value of sterling. However the principle advice remains that the largest risk to the Fund is the exposure of its liabilities to interest rates and inflation.
- 3.9 *'You should already be reviewing your scheme's position and scenario planning as part of your ongoing integrated risk management (IRM). But if it's been a while, read our IRM guidance to make sure you're fully prepared.'*
- 3.10 The Fund's risk register, in which Brexit plays a significant part, is reviewed by the Committee twice a year.

Employer covenant

- 3.11 *'The impact of Brexit on your sponsoring employer may vary according to, for example:*
- *'the industry sector they are in*
 - *'how exposed their particular business is in respect of the UK's decision to leave the EU*
 - *'the nature of the UK's future relationship with the EU and other countries.*

- 3.12 *'Speak to your covenant adviser if you have concerns about the impact of Brexit on the employer. 'You should be having open and collaborative discussions with your sponsoring employer about deficit repair contributions (DRCs) and how they may change. If the employer proposes to reduce DRCs we would expect you to test whether this is the right thing to do. 'You should take into account the impact on both the scheme and the employer covenant. This should include assessing whether the reduction is necessary, ensuring that other stakeholders are being treated fairly, that dividends are not proposed and that security is offered as mitigation for reductions in DRCs where this is available.*
- 3.13 As the Fund's Administering Authority the Council is, in effect, the sponsoring authority. As a local authority the Fund is unlikely to face any specific "industry" exposure. However, this will not necessarily be the case with all other Scheme Employers, who include multi-national contractors. "Deficit Repair Contributions" for both the Council and other employers in the Fund are the subject of discussions with the Actuary during the current triennial valuation.

Operations and administration

- 3.14 *'Read the Department for Work and Pensions guidance on pensions and benefits in the event of 'no deal' in respect of EU citizens in the UK and UK nationals in the EU. Make sure you understand the impact of Brexit on any key services to your scheme that are provided from the EU or by firms that are themselves exposed to the EU, e.g. asset management. Speak to your administrator to make sure that nothing will interrupt the payment of benefits across the EU border.'*
- 3.15 Few significant services provided directly to the Fund are supplied from within the EU. Although it is not believed that the payment of benefits across the EU border will be interrupted; the Human Resources team are gathering relevant information concerning "EU staff" who may be members of the Fund to seek to ensure that they are being properly advised.

Member communications

- 3.16 *'Some members, especially those resident in the EU, may be nervous about the impact of leaving the EU on their pension savings. They may contact you or the administrator for further information. Talk to your administrator and make sure they are prepared to answer queries. 'You should be prepared to explain clearly to your members the work you have done to understand how Brexit may impact your scheme and the steps you have taken to address these issues. 'Encourage your members to contact Pension Wise (if they're over 50) or The Pensions Advisory Service for free and impartial guidance.'*
- 3.17 The Fund's Administration Team are able to answer queries relating to the impact of Brexit so far as it is known. Contact details for The Pensions Advisory Service are provided in various of the Fund's information sources, most pertinently in the Annual Report.

4 FINANCIAL CONSIDERATIONS

- 4.1 There are no further financial considerations arising from this report.

5 OTHER CONSIDERATIONS

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

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

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

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

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

None