

# Croydon Council

<b>REPORT TO:</b>	<b>Pension Board</b> <b>19 October 2023</b>
<b>SUBJECT:</b>	<b>Policies and Strategies Considered by Pension Committee and Pension Board</b>
<b>LEAD OFFICER:</b>	<b>Matthew Hallett – Acting Head of Pensions and Treasury</b>

## 1. RECOMMENDATION

1.1 The Board are asked to note the contents of this report

## 2. EXECUTIVE SUMMARY

2.1 This report advises the Board of the various policies and strategies required for the proper administration of the Fund.

## 3. DETAIL

3.1 From time to time Members of both the Board and the Committee have raised concerns over the number of “strategies” and “policies” which they are asked to consider and the reasons for this.

3.2 The Local Government Pension Scheme is established through legislation and is subject to many regulations, statutory and non-statutory guidance, codes of practice and best practice. Below are the “Strategies” and “Policies” agreed by the Committee and/or Board and an explanation as to why they need to be agreed.

### 3.3 Governance Policy (agreed by Pension Committee on 20 June 2023)

Regulation 55 of The Local Government Pension Scheme Regulations 2013 requires that:

(1) An *administering authority* must prepare a written statement setting out-

(a) *whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;*

- (b) *if the authority does so-*
  - (i) *the terms, structure and operational procedures of the delegation,*
  - (ii) *the frequency of any committee or sub-committee meetings,*
  - (iii) *whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;*
- (c) *the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and*
- (d) *details of the terms, structure and operational procedures relating to the [local pension board](#) established under [regulation 106](#) ([local pension boards: establishment](#)).*

### **3.4 Pension Fund Annual Report (agreed by Pension Committee in respect of 2020/21 on 3 December 2021)**

Regulation 57 of The Local Government Pension Scheme Regulations 2013 requires that:

*(1) An [administering authority](#) must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document ("the pension fund annual report") which contains-*

- (a) *a report about the management and financial performance during the year of each of the pension funds maintained by the authority;*
- (b) *a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;*
- (c) *a report of the arrangements made during the year for the administration of each of those funds;*
- (d) *for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with [regulation 62](#) ([actuarial valuations of pension funds](#)), of the level of funding disclosed by that valuation;*
- (e) *the current version of the statement under [regulation 55](#) ([governance compliance statement](#));*
- (f) *for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;*
- (g) *an annual report dealing with-*
  - (i) *the extent to which the authority and [the Scheme](#) employers in relation to which it is the [administering authority](#) have achieved any levels of performance set out in a pension administration strategy in accordance with [regulation 59](#) ([pension administration strategy](#)), and*

- (ii) *such other matters arising from a pension administration strategy as it considers appropriate;*
- (h) *the current version of the statement referred to in regulation 58 (funding strategy statement);*
- (i) *the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;*
- (j) *the current version of the statement under regulation 61 (statements of policy concerning communications with members and Scheme employers); and*
- (k) *any other material which the authority considers appropriate.*

### **3.5 Funding Strategy Statement – (along with various satellite policies agreed by Pension Committee on 14 March 2023 and Admission Policy agreed at Pension Committee on 3 December 2021)**

Regulation 58 of The Local Government Pension Scheme Regulations 2013 requires that:

*(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.*

*(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.*

*(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to-*

- (a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012(42); and*
- (b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

### **3.6 Pension Administration Strategy (agreed by Pension Committee on 20 June 2023)**

Regulation 59 of The Local Government Pension Scheme Regulations 2013 requires that:

*(1) An **administering authority** may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.*

*(2) The matters are-*

- (a) procedures for liaison and communication with Scheme employers in relation to which it is the **administering authority** ("its Scheme employers");*
- (b) the establishment of levels of performance which the **administering authority** and its Scheme employers are expected to achieve in carrying out their Scheme functions by-*
  - (i) the setting of performance targets,*
  - (ii) the making of agreements about levels of performance and associated matters, or*
  - (iii) such other means as the **administering authority** considers appropriate;*
- (c) procedures which aim to secure that the **administering authority** and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;*
- (d) procedures for improving the communication by the **administering authority** and its Scheme employers to each other of information relating to those functions;*
- (e) the circumstances in which the **administering authority** may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);*
- (f) the publication by the **administering authority** of annual reports dealing with-*
  - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and*
  - (i) such other matters arising from its pension administration strategy as it considers appropriate; and*
- (g) such other matters as appear to the **administering authority** after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.*

### **3.7 Mandatory Discretions Policy (agreed by Pension Committee on 14 June 2022)**

Regulation 60 of The Local Government Pension Scheme Regulations 2013 requires that:

*(1) A Scheme employer must prepare a written statement of its policy in relation to the exercise of its functions under regulations—*

*(a) 16(2)(e) and 16(4)(d) (funding of additional pension);*

*(b) 30(6) (flexible retirement);*

*(c) 30(8) (waiving of actuarial reduction); and*

*(d) 31 (award of additional pension),*

A policy on Mandatory Discretions is required under the following legislation:

The Local Government Pension Scheme Regulations 1995;

The Local Government Pension Scheme Regulations 1997;

The Local Government Pension Scheme (Transitional Provisions) Regulations 1997;

The Local Government Pension Scheme Regulations 1997 (as amended);

The Local Government (Early Termination of Employment) Discretionary Compensation Regulations 2000;

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;

The Local Government (Early Termination of Employment) Discretionary Compensation Regulations 2006;

The Local Government Pension Scheme (Administration) Regulations 2008;

The Local Government Pension Scheme (Transitional Provisions) Regulations 2008;

The Local Government Discretionary Payments (Injury Allowance) Regulations 2012;  
and

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

These discretions relate to the following:

- post 31.3.14 active members (excluding councillor members) and post 31.3.14 leavers (excluding councillor members);
- scheme members (excluding councillor members) who ceased active membership on or after 1.4.08 and before 1.4.14;
- scheme members (excluding councillors) who ceased active membership on or after 1.4.98. and before 1.4.08; and
- scheme members who ceased active membership before 1.4.98.

The Administering Authority has in place a Discretions Policy in relation to:

- Abatement of pension following re-employment;
- Waiving reduction;
- Switching on the 85 year rule; and
- Early payment of deferred benefits

It has separate policies for Communication, Funding Strategy and Governance and Compliance Statement.

### **3.8 Communication Policy (agreed by Pension Committee on 17 September 2019 and Pension Board on 12 January 2023)**

Regulation 61 of The Local Government Pension Scheme Regulations 2013 requires that:

*(1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with-*

- (a) members;*
- (b) representatives of members;*
- (c) prospective members; and*
- (d) Scheme employers.*

*(2) In particular the statement must set out its policy on-*

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;*
- (b) the format, frequency and method of distributing such information or publicity; and*
- (c) the promotion of the Scheme to prospective members and their employers.*

### **3.9 Conflicts of interest policy (Agreed for Board only by Pension Board on 2 July 2015 and revised whole Fund version agreed by Pension Committee on 19 September 2023)**

Regulation 108 of The Local Government Pension Scheme Regulations 2013 requires that:

*(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest.*

*(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.*

On 2 July 2015, the Board adopted a Conflicts of Interest Policy.

In their Governance Review of the Fund, Aon go into some detail as to how conflicts of interest are currently managed and, whilst they acknowledge that current practices meet current legal requirements, they argue that they could be improved to meet good practice and national guidance. As regards a Policy to cover the whole of the Fund's management they comment as follows:

*Clearly this is not a legal requirement but, as mentioned earlier in the report, we would encourage the Administering Authority to develop a Fund specific policy outlining how conflicts of interest will be managed and dealt with at a Fund level. This could include reference to:*

- *the Council's Code of Conduct*
- *how it relates to co-optees and observers*
- *examples of Fund specific potential conflicts of interest*
- *how conflicts of interest (and potential conflicts of interest) will be managed*
- *guidance for officers and advisers of the Fund to also adhere to*

In the "Full draft of the new code of practice" published by The Pensions Regulator in March 2021 is included the following:

*Identifying and recording conflicts of interest*

- .....
- *Maintain a written policy for managing actual and perceived conflicts of interest;*
- .....

In their report dated February 2021 to the Scheme Advisory Report entitled "Good Governance: Phase 3 Report to SAB" Hymans Robertson recommend as follows:

*B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.*

They further advise that the Policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded; and
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.

### **3.10 Breaches of Law Policy (Agreed by Pension Committee on 11 October 2023)**

The Policy arises from statutory duties and The Pensions Regulator Code requirements that certain people with responsibilities in connection with Fund are required to report matters they consider may be contrary to legal duties and of significance to the Regulator.

On 2 July 2015, in relation to its own duties, the Pension Board agreed a “ Breaches of the Law Policy.”

In their Governance Review of the Fund Aon note that the current procedure “appears to be focussed on Local Pension Board members” and the agreed action arising from the Review is:

*Review current Pension Board breaches procedure but, in doing so, expand to cover all of those involved with the management of the Fund (i.e. Committee and senior officers)*

The current Policy incorporates this recommendation.

### **3.11 Risk Management Policy (Agreed by Pension Board on 23 March 2023 and Pension Committee on 19 September 2023)**



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

*249B Requirement for internal controls: public service pension schemes*

*(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*

*(a) in accordance with the scheme rules, and*

*(b) in accordance with the requirements of the law.*

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

CIPFA has published technical guidance in their publication “Managing Risk In The Local government Pension Scheme” (2018 Edition). The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

In the “Full draft of the new code of practice” published by The Pensions Regulator in March 2021 is included the following:

*Risk management policies*

- *The operation of policies to identify and assess risks facing the scheme;*
- *The internal control policies and procedures for the scheme;*
  
- *Management of potential internal conflicts of interest, and those with participating employers and service providers;*
- *The prevention of conflicts of interest where the employer and governing body use the same service provider; and.*
- *Continuity planning for the scheme and, where applicable, how it has performed*

**3.12 Representation Policy (Agreed by Pension Board on 27 July 2023 and by Pension Committee on 19 September 2023)**

In their report dated February 2021 to the Scheme Advisory Report entitled “Good Governance: Phase 3 Report to SAB” Hymans Robertson recommend as follows:

*C1: Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.*

The report expands on this recommendation as follows:

*The intention behind this recommendation is simply that administering authorities prepare, maintain and publish their policy on representation and to require that they provide:*

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and*
- the rationale as to whether those representatives have voting rights or not.*

### **3.13 Investment Strategy Statement (Agreed by Pension Committee on 19 September 2023)**

Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires that:

- (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.*

### **3.14 Satellite Policies included within the Funding Strategy Statement (agreed by Pension Committee on 14 March 2023)**

Within legislation affecting the Fund, most notably the Local Government Pension Scheme Regulations 2013, there are many references to the arrangements for employers wishing to join or leave the Scheme and for bulk transfers of staff.

In their 2019 Governance Review, Aon advised as follows:

*Although not legally required, many administering authorities have now put admission and bulk transfer policies in place to provide greater detail and expand on some of the areas in the FSS.*

*Consider whether to introduce admission and bulk transfer policies, to provide greater detail and expand on some of the areas in the FSS.*

*Update the "Policy for Employer leaving the Fund" in line with exit credit legislation (and review when further amendment regulations are made).*

Arising from the review the "Admissions Policy," Bulk Transfer Policy" and "Policy for Employers Leaving the Fund" were agreed by the Pension Committee on 3 December 2021.

Subsequently, the following policies were appended to the Funding Strategy Statement agreed by the Pension Committee on 14 March 2023:

- Policy on contribution reviews;
- Policy on academy funding;
- Policy on bulk transfers;
- Cessation policy; and
- Policy on prepayments

### **3.15 Knowledge and Skills Policy (agreed by Pension Committee on 14 June 2022)**

In their 2019 Governance Review, Aon made reference to Guidance provided by CIPFA, the Local Government Pension Scheme Advisory Board (SAB) and The Pensions Regulator (tPR) and concluded that:

*It appears that all key elements [in the then current Policy] are considered in relation to the Local Pension Board (SAB and TPR), but we are unable to verify this in relation to PB 19102023*

*the wider requirements in line with the CIPFA guidance. Although some information is contained within the Fund's Training Log, we were advised that the original decisions were made at a Pension Committee meeting in 2010 and those papers are no longer publicly available.*

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

In the agreed Action Plan arising from the Review it was agreed that the Fund would:

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

In their report dated February 2021 to the Scheme Advisory Report entitled "Good Governance: Phase 3 Report to SAB" Hymans Robertson recommend as follows:

*D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements [as detailed in Report].*

### **3.16 Environmental Social and Governance Policy (included as paragraph 6 in Investment Strategy Statement agreed by Pension Committee on 14 September 2021)**

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—*

*(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;*

### **3.17 Business Plan (Agreed by Pension Committee on 14 March 2023)**

At their meeting on 15 September 2020 the Committee considered guidance from The Pensions Regulator and CIPFA, as highlighted by Aon in their Governance Review of the Fund, recommending that “a medium term business plan should be created for the pension fund.” They agreed to note the draft “Medium Term Business Plan 2020-2023” as presented to them.

On 14 March 2023 they subsequently agreed a Business Plan for 2023-26.

#### **4. DATA PROTECTION IMPLICATIONS**

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

No.

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

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

**Approved by:** Allister Bannin on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

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#### **CONTACT OFFICER:**

Matthew Hallett – Acting Head of Pensions and Treasury.

#### **BACKGROUND DOCUMENTS:**

None.

#### **APPENDICES:**

None.

