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Governance Review

London Borough of Croydon Pension Fund

Prepared for London Borough of Croydon Local Pension Board

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Date 29 March 2016

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Executive Summary

We have been asked by the London Borough of Croydon Local Pension Board to carry out a governance review in relation to the London Borough of Croydon Pension Fund ("the Fund"). The Fund is one of the 89 Funds who are part of the national Local Government Pension Scheme in England and Wales.

The purpose of this review is to ensure that the London Borough of Croydon, the Administering Authority for the Fund, is meeting its legal requirements in relation to the running of the Fund. In addition, the review highlights areas of good practice in relation to the governance of the Fund and also recommends any potential areas for improvement. The approach taken has been to compare the Administering Authority's current practices (at a high level) against the Aon Hewitt governance framework. The framework considers the following key areas:

Direction – What is the Fund trying to achieve?

- Legislation
- Strategies and Policies

Delivery – How does the Fund meet its aims?

- Business Planning
- Performance Monitoring
- Risk Management

Decisions – Does the Fund have effective decision making?

- Governance Structure
- Behaviour
- Pensions Skills and Knowledge

Our overall conclusion is that the governance of the Fund is of a good level in many areas, meets legal requirements on the whole, and in some areas the Administering Authority is demonstrating best practice. These include:

- having an administration strategy in place, which is an optional strategy but key to the delivery of services to the Fund's stakeholders
- having good quality investment monitoring information
- having clear evidence of appropriate debate and discussion by the Pension Committee when reviewing the investment strategy, and particularly the asset allocation
- making good use of officers and advisers' expertise to assist with decision making
- evidence of good quality training for the Pension Committee
- evidence of appropriate delegation to officers to allow the Pension Committee to focus on strategic matters.

We also identified some areas which could potentially be improved, and we therefore made some recommendations, including the following:

- developing a Fund business plan, to be approved and monitored by the Pension Committee
- developing a Fund risk register, with summary data to be regularly fed back to the Pension Committee
- expanding the terms of reference for the Pension Committee so that their responsibilities are more clearly articulated

- formalising Fund strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clearer framework
- undertaking a detailed review of the Fund's practices against The Pension Regulator's Code of Practice Number 14 - Governance and administration of public service pension schemes.

Next steps

We recommend that the Pension Board considers the recommendations set out in this report, and considers what should (and how it should) be fed back to the Pension Committee and officers of the Fund. We further recommend that an action plan is developed in relation to implementing these recommendations, in order that progress can be monitored on an ongoing basis.

Governance Review

London Borough of Croydon Pension Fund

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1 - Introduction

Purpose and scope

This paper sets out the findings of Aon Hewitt's governance review of the London Borough of Croydon Pension Fund, which was commissioned by the London Borough of Croydon Local Pension Board ("LPB"). The London Borough of Croydon (the "Administering Authority") is responsible for managing and administering the London Borough of Croydon Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme ("LGPS").

The purpose of this review is to ensure that the legal requirements in relation to the governance of the Fund are being adhered to, as well as to highlight areas of good practice in relation to the governance of the Fund, and also any recommended areas for improvement. We have compared the Administering Authority's practices against the Aon Hewitt governance framework which considers areas such as the role and effectiveness of the Pension Committee ("PC"), how the PC takes advice and the key documents and policies that govern the Fund. The Aon Hewitt governance framework is explained further in the next section of this report.

The review has been carried out at a high level and did not involve any detailed investigation into services such as administration, communications, funding or investments. Accordingly it does not provide any technical comment in relation to any of these areas, including regarding the technical content of the related key governance documents. The review does include consideration, at a high level, of the legal requirements relating to governance, for example, the requirement to publish certain policies and strategies under Local Government Pension Scheme legislation. Though it includes some legal elements, these are presented by us in our capacity as pension consultants and not as legal experts, and as such nothing in this report should be considered as legal advice.

Further, the review does not specifically consider the establishment or operation of the LPB. However, there are some areas of overlap in relation to good practice for the PC and managers of the Fund that have relevance to the operation of the LPB and so some references to the LPB are included.

Research

The information upon which this review has been based has been gathered in a number of ways:

- Desk-top review of key reports, statements and policies governing the scheme and web information. The documents considered are listed in Appendix A.
- Effectiveness questionnaires were provided to all key officers and PC members (including scheme member representatives) to gather their views on areas such as the length of the meetings, how topics are presented, whether the members feel confident when making decisions, whether the members understand risk and strategy, and their general engagement in matters. The results of the questionnaire are summarised in Appendix B.
- My observations from attending a PC meeting in December 2015.
- Informal discussions with Nigel Cook and Freda Townsend, senior officers associated with the Fund, in relation to information found as part of the desktop review of current practices and procedures.

We would like to thank the officers and the members of the PC for their assistance throughout this review. It has been a pleasure working with them.

We hope the information contained within this report is useful to the Croydon LPB as well as to the London Borough of Croydon in considering how best to govern the Fund in the future. As you can see, the findings are positive in most places.

We look forward to answering any questions in relation to the report, and particularly any areas where we have highlighted that improvements could be made.

We recommend that an action plan is developed in relation to implementing these recommendations in order that progress can be monitored on an ongoing basis.

2 - Governance Framework

This section describes the best practice framework against which this review was conducted.

There are some key benefits from having effective governance in place, including:

- Robust risk management that can assist in preventing issues from arising, or at least reducing their impact should they arise
- Ensuring resources and time are appropriately focussed
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated for the Pension Committee (or equivalent).

At Aon Hewitt, we have a number of beliefs when it comes to achieving good governance including:

- Direction – having clear strategies and policies that also meet legislative requirements are fundamental
- Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management ensure effective and efficient delivery
- Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is key.

These beliefs are shown in the following diagram and described in more detail below.






Table 1 – Aon Hewitt governance framework

| Direction – What are you trying to achieve? | |
|--|---|
| Legislation and guidance | The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance. |
| Strategies and policies | <p>The Fund's strategies and policies should clearly set out the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies:</p> <ul style="list-style-type: none"> ▪ should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself ▪ should be clearly articulated, to provide a framework within which those managing the Fund are able to operate ▪ should provide the focus for all future decisions and plans ▪ should be agreed by those responsible for governing the Fund. |
| Delivery – How do you meet your aims? | |
| Business Planning | <p>Each Fund should have a business plan, setting out required activities in the forthcoming period. Those activities:</p> <ul style="list-style-type: none"> ▪ should be driven by the Fund's strategies and policies ▪ will include activities driven by changes in overriding legislation. |
| Performance Measurement | <p>Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should:</p> <ul style="list-style-type: none"> ▪ illustrate whether the Fund's aims are being achieved ▪ cover the full range of key areas (e.g. investments, funding, governance, communications and administration) ▪ illustrate whether the Fund's business plan is being achieved ▪ be updated in accordance with appropriate timescales ▪ be presented in a manner that is easy to follow and understandable to those governing the Fund ▪ assist in identifying changes to the Fund's business plan, strategies, policies and aims. |
| Risk Management | <p>Effective risk management is critical to minimise the impact and/or probability of unfortunate events and to maximise the realisation of opportunities. It should be:</p> <ul style="list-style-type: none"> ▪ aligned with the Fund's aims ▪ a key consideration in decision making ▪ systematic or structured ▪ an integral part of the Administering Authority's processes and procedures on a daily basis. |

Decisions – Do you have effective decision making?

| | |
|-----------------------------|---|
| <p>Governance structure</p> | <p>There is no one 'correct' governance structure. The Administering Authority's structure should:</p> <ul style="list-style-type: none"> ▪ have clear terms of reference ▪ have a clearly documented scheme of delegation ▪ allow decision making at the appropriate level ▪ allow quick decision making where appropriate ▪ include appropriate representation from stakeholders ▪ involve well-presented information/reports ▪ allow sufficient time for discussion where necessary ▪ have good quality (committee) administration (e.g. issuing papers in good time) ▪ involve a process for managing conflicts ▪ provide transparency to stakeholders where appropriate. |
| <p>Behaviour</p> | <p>A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should:</p> <ul style="list-style-type: none"> ▪ have a high level of attendance at meetings ▪ demonstrate integrity in relation to their Fund role ▪ be engaged and provide appropriate challenge ▪ be accountable for the decisions made ▪ highlight any potential conflicts they may have ▪ for a Chairperson, manage the meetings fairly without any bias to individuals or self ▪ prepare adequately for meetings. |
| <p>Skills and knowledge</p> | <p>A critical element is the need for those managing the Fund to have the appropriate level of knowledge and skills. Administering Authorities should:</p> <ul style="list-style-type: none"> ▪ clearly articulate the knowledge and skills requirements in a Fund policy ▪ provide ongoing training in an effective and suitable manner to meet those requirements ▪ regularly review whether knowledge aspirations are being met ▪ ensure they rely appropriately on officers and advisers to provide expert knowledge. |

Throughout this report we have included comments and facts which we hope are useful to the Administering Authority, including the LPB, in highlighting areas of good practice but also identifying areas for potential improvement. To provide some greater clarity on the intention of our comments, we have included graphics to illustrate whether they are:

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

3 - Direction – What are you trying to achieve?

In this section, we consider whether the Fund has clear strategies and policies which meet the following requirements:

- *The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.*
- *The Fund's strategies and policies should clearly set out the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies:*
 - *should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself*
 - *should be clearly articulated, to provide a framework within which those managing the Fund are able to operate*
 - *should provide the focus for all future decisions and plans*
 - *should be agreed by those responsible for governing the Fund.*

In the table that follows, we summarise the key policies and strategies which we would expect to be in place for a well governed LGPS Fund, considering both legal requirements and best practice. Note that we have not considered the principles or methodology within these documents, given that this review is focussed on governance matters and not, for example, on the quality of actuarial or investment matters.

We have indicated in the table whether the documents are;










- legally required under the LGPS, or
- expected in accordance with CIPFA, LGPS Scheme Advisory Board ("SAB") or The Pensions Regulator's ("TPR") Guidance or Codes (many of which have some element of statutory backing),

and we then consider whether they are currently in place for the Fund and whether they meet these legal requirements or any requirements laid out in Guidance or Codes.

We also consider the quality and structure of these policies and strategies. For example, it is important that the PC is fully engaged in the development of all strategies and policies, whilst receiving appropriate advice and expertise from the officers and advisers of the Fund. It must therefore be clear that strategies and policies are part of PC business and are subject to ongoing review. We consider some other best practice elements later.





Table 2 – Strategies and policies – meeting key requirements



| Strategy / Policy | Fund Version? / Version Date | Legal or National Guidance Requirement | Adherence to Legislation and Guidance | Process, decision making or more general observations |
|---|------------------------------|--|---|--|
| <p>Funding Strategy Statement (FSS), including actuarial assessments</p> | <p>Yes – April 2014</p> | <ul style="list-style-type: none"> ▪ LGPS Regulations ▪ CIPFA FSS Guidance | <p>☺ Meets requirements (but see next column regarding timescales) and also appears to follow the CIPFA guidance.</p> <p>It is noted that the Administering Authority will be reviewing the strategy in tandem with the 2016 actuarial valuation and, as part of that exercise, will be updating it in line with the updated CIPFA guidance which is expected soon.</p> | <p>☺ The FSS and actuarial valuation were considered by the PC.</p> <p>☺ It is also clear that they took appropriate advice from the actuary.</p> <p>☹ However, we would expect the FSS to be formally approved before the valuation is finalised (as the actuary needs to (legally) have regard to the current FSS in carrying out the valuation). The current FSS does not appear to have been approved until July 2014 whilst the valuation report was signed on 31 March 2014. It is also worth highlighting that the consultation with employers is stated as being in April/May 2014, which was after the date that employer rates had been certified in the valuation report. However, it does appear employers received their initial results (which would have been based on the key elements of the FSS) in late 2013, so it may have simply been the case of the formalisation of the strategy catching up with the practicalities of the approach used in the valuation.</p> |


| Strategy / Policy | Fund Version? / Version Date | Legal or National Guidance Requirement | Adherence to Legislation and Guidance | Process, decision making or more general observations |
|---|--|--|---|---|
| Statement of Investment Principles (SIP), including: - asset allocation review - policy on socially responsible investing - Myners Compliance Statement | Yes- December 2015 (albeit the version on the Council's website has not been updated and is the 2012/13 version) | <ul style="list-style-type: none"> LGPS Regulations Compliance Statement against CIPFA guidance on the Myners Principles in the LGPS |  Meets requirements including a well set out statement of compliance. |  It is clear that the latest review of the SIP was undertaken following a long process involving the PC. This included a number of discussions and challenges around the asset allocation review (training, workshops and a number of PC meetings).  It involved ongoing advice from the investment consultant and officers.  The SIP includes information relating to ESG and corporate governance matters including the use of PIRC and LAPFF. |
| Governance Policy and Compliance Statement | Yes – 2015 (no month shown but considered with annual report in September 2015) We note that the version on the Council's website has not been updated and is the 2014 version. | <ul style="list-style-type: none"> LGPS Regulations Compliance Statement against Secretary of State guidance |  The Governance Compliance Statement provides the information that is required by the Local Government Pension Scheme Regulations 2013.  However, it does not clearly state the extent to which it complies with each of the points in the Secretary of State's Statutory Guidance. We would expect the key elements outlined in that guidance to be explicitly quoted together with a note setting out whether the Fund complies with each element. |  It does not appear that the PC was specifically asked to approve this document (it was part of the annual report and no changes were specifically highlighted). We would recommend this being clear in the future. |
| Communications Policy | Yes – September 2014 | <ul style="list-style-type: none"> LGPS Regulations |  Meets all requirements. |  It does not appear that the PC was specifically asked to approve this document (it was part of the annual report and no changes were specifically highlighted). |

| Strategy / Policy | Fund Version? / Version Date | Legal or National Guidance Requirement | Adherence to Legislation and Guidance | Process, decision making or more general observations |
|---|--|---|--|--|
| Administering Authority Discretionary Policy | No (albeit the employing authority's policy is available on the website) | <ul style="list-style-type: none"> LGPS Regulations – basic element only | <p>☹️ No policy has been made. Note the legally required element is just in relation to waiving of reductions for ceased employers, and therefore this is not a major issue but should be rectified.</p> | <p>😊 There are a range of discretionary provisions in the LGPS regulations, such as the charging of interest on late contributions or how to determine who should receive a death grant. It is best practice to have a fuller policy which allows discretions to be approved by the PC or, given its focus on low risk matters, by officers if delegated powers are provided. It should, however, be worded appropriately to ensure that it does not fetter future discretion in relation to these powers.</p> |
| Administration Strategy | Yes – January 2016 | <ul style="list-style-type: none"> LGPS Regulations, (as an optional strategy) | <p>😊 Meets all requirements.</p> | <p>😊 This was considered and approved at the December 2015 PC.</p> |
| Risk Management Policy & Strategy | No | <ul style="list-style-type: none"> CIPFA Guidance | <p>😊 Not in place.</p> | N/A |
| Annual report and accounts | Yes – 2014/2015 | <ul style="list-style-type: none"> LGPS Regulations CIPFA Guidance "Preparing the Annual Report" CIPFA accounting guidance | <p>😊 Meets all LGPS Regulatory requirements.</p> <p>😊 There appear to be some elements of the CIPFA annual report guidance that are not included in full, for example, administration data quality and a statement of compliance with the CIPFA knowledge and skills code of practice.</p> <p>😊 Due to the detailed nature of CIPFA's accounting guidance we have not considered this. However, the audit findings were reported to the September 2015 PC.</p> | <p>😊 This was considered and approved at the September 2015 PC, including the associated audit report.</p> |

| Strategy / Policy | Fund Version? / Version Date | Legal or National Guidance Requirement | Adherence to Legislation and Guidance | Process, decision making or more general observations |
|--|--|---|--|---|
| <p>Knowledge and Skills/Training Policy</p> | <p>Yes:</p> <ul style="list-style-type: none"> ▪ LPB July 2015 ▪ PC 2014 ▪ PC 2010 – unable to verify | <ul style="list-style-type: none"> ▪ CIPFA & SAB ▪ TPR Code of Practice | <p>☺ It appears that all key elements are considered in relation to the LPB (SAB and TPR), but we were unable to verify this in relation to the wider requirements in line with the CIPFA guidance. Although some information is contained within the Fund's Training Log, we were advised that the original decisions were made at a PC meeting in 2010 and those papers are no longer publically available.</p> <p>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 PC and LPB.</p> <p>When this combined document is created, we would recommend that this clearly states the individual responsible for ensuring that the Policy is implemented (as is recommended). This will be a useful reminder for relevant stakeholders as to who to contact if they feel they require further training.</p> | <p>☺ We were advised that the original decision was made at a PC meeting in 2010 which is clearly good practice but we observe that this decision is now nearly 6 years old, and best practice is that key policies should be regularly refreshed</p> |

| Strategy / Policy | Fund Version? / Version Date | Legal or National Guidance Requirement | Adherence to Legislation and Guidance | Process, decision making or more general observations |
|--------------------------------------|--|---|--|--|
| Conflicts of Interest Policy | Yes: <ul style="list-style-type: none"> LPB July 2015 | <ul style="list-style-type: none"> SAB Required for LPB only |  The Conflicts of Interest Policy for the LPB appears to incorporate the key elements as expected. |  Although not explicit in any legislation or guidance, it would be good practice to have a wider Fund Conflicts of Interest Policy applying to all stakeholders, and this is mentioned as part of the CIPFA annual report guidance. This should highlight differences between the Council's requirements in relation to declarations for elected members and officers as well as ensuring other parties (observers and advisers) are fully aware of expectations. |
| Breaches of the Law Procedure | Yes: <ul style="list-style-type: none"> LPB July 2015 | <ul style="list-style-type: none"> Pensions Act 2004 TPR Code of Practice |  The Breaches Procedure that has been put in place appears to be focussed on LPB members. We recommend that changes are made to make it clear that it equally applies to all persons who are required to report material breaches and then this requirement (and procedure) should be communicated to all such persons. |  We also recommend that the Procedure is clearer in relation to ongoing monitoring of breaches with the PC and LPB, whether the breach is materially significant, and hence reportable, or not. |

| Strategy / Policy | Fund Version? / Version Date | Legal or National Guidance Requirement | Adherence to Legislation and Guidance | Process, decision making or more general observations |
|--|------------------------------|--|--|---|
| Treasury/Cash Management | No | <ul style="list-style-type: none"> LGPS Regulations |  Not in place. Regulation 11 of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 requires each administering authority to have an investment policy outlining where any fund money that is not needed immediately is invested. Whilst there is a Council wide strategy, the pension fund uses a separate bank account which is why a separate policy is required. | |
| Employer (admission / cessation / bulk transfer) Policy | No | <ul style="list-style-type: none"> None- good practice only | N/A |  Although not legally required, many administering authorities have now put these policies in place. They provide greater detail and expand on some of the areas in the FSS, such as how bulk transfers will normally be calculated and arranged, how new employers are admitted to the Fund etc. It can be a useful reference for employers in the Fund to help them understand their obligations and we would therefore recommend the Fund considers whether it may be appropriate to develop such a policy. |

 It is worth highlighting that the results of the questionnaire that was completed by most of the PC members and officers, show that a reasonable proportion of the PC do not believe there are clear objectives for the Fund in relation to administration, communications and, to a lesser degree, governance. This highlights that, even though there are strategies or policies in place covering most of these areas, there could be more time spent at PC meetings considering non-investment matters. This is considered further later in this report.

As a general principle we would also recommend that any strategy or policy document should include the following elements in addition to the main contents/purpose of the document:

- Introduction including any relevant legislation and guidance
- The Fund's aims / objectives in this area
- What measurement / monitoring will be carried out in relation to those aims / objectives
- The key risks relating to the strategy and how they are being managed / monitored
- Who was consulted on the drafting of the strategy / policy
- When / how it was approved
- The effective date of the strategy / policy
- When it will next be reviewed
- The roles and responsibilities of the key parties responsible for delivering the strategy (e.g. Pension Fund Committee, officers, fund managers, advisers etc.).

In addition, we recommend that the latest version of all of these key documents is made available on the Fund's website.

We show in the following tables whether or not these elements are contained in the Fund's key documents, where we consider them appropriate.

Table 3a – Strategies and policies – document structure

| Strategy / Policy Elements | FSS | SIP | Governance | Communica-tions | Discretion-ary | Administra-tion |
|---|---------------------|-------------------|-------------------|-----------------------|--------------------|-------------------------------------|
| Introduction including any relevant legislation and guidance | Yes | Yes | Yes | Yes | No policy in place | Yes |
| The Fund's aims / objectives | Yes | Yes | No | Yes – very high level | N/A | High level and not explicit |
| Measurement / monitoring requirements | Yes (part of risks) | Yes | No | No | N/A | Yes – not clear who monitors though |
| Key risks and how they are being managed / monitored | Yes | Yes | No | No | N/A | No |
| Who was consulted | Yes | No | No | No | N/A | Yes |
| When / how it was approved | Not when | Yes | No | No | N/A | No |
| Effective date | Yes | No | No | Not clear | N/A | Yes |
| When it will next be reviewed | Yes | Yes | No | No | N/A | Yes |
| The roles and responsibilities of the key parties | Yes | Could be clearer | Partial | Yes | N/A | Yes |
| On website | Yes | Yes (old version) | Yes (old version) | Yes | N/A | Yes |

Table 3b – Strategies and policies – document structure – continued

| Strategy / Policy Elements | Risk | Training* | Conflicts* | Breaches* | Treasury Management | Employer |
|---|--------------------|-----------|----------------|----------------|---------------------|--------------------|
| Introduction including any relevant legislation and guidance | No policy in place | Yes | Yes | Yes | No policy in place | No policy in place |
| The Fund's aims / objectives | N/A | Yes | Not explicitly | Not explicitly | N/A | N/A |
| Measurement / monitoring requirements | N/A | Yes | Yes | No | N/A | N/A |
| Key risks and how they are being managed / monitored | N/A | No | No | No | N/A | N/A |
| Who was consulted on | N/A | No | No | No | N/A | N/A |
| When / how it was approved | N/A | No | No | No | N/A | N/A |
| Effective date | N/A | No | No | No | N/A | N/A |
| When it will next be reviewed | N/A | No | No | No | N/A | N/A |
| The roles and responsibilities of the key parties | N/A | Not fully | Not fully | Not fully | N/A | N/A |
| On website | N/A | Yes | Yes | Yes | N/A | N/A |

*Analysis based on LPB policies that are in place. No wider Fund policy available to analyse.

😊 As you can see from the tables above, many of the policies follow good practice by incorporating these key elements. Further, every policy that exists is available on the Fund's website (albeit two need to be updated to the most recent version). We would recommend the Administering Authority develops within a business plan (explained later) and the PC's forward plan a commitment to ensure that all policies are subject to review at least every three years and, on the next review of each policy, that the structure of the policy is reviewed to ensure all the key elements identified above are incorporated.

😊 Adherence to The Pensions Regulator Code of Practice

In addition to the LGPS regulations, CIPFA and SAB guidance, there are a number of key requirements relating to the management and operations of public service pensions schemes which are outlined in TPR's Code of Practice Number 14 - Governance and administration of public service pension schemes ("TPR's Code of Practice"). Many of the elements in the guidance relate to legislative requirements, mainly under the Public Service Pensions Act 2013 or the Pensions Act 2004. The Code of Practice covers the following areas and it can be seen that there is also overlap with some of the policies and strategies mentioned previously in this section.

- Knowledge and understanding of LPB members
- Conflicts of interest and representation
- Publishing information about schemes
- Internal controls
- Scheme record-keeping
- Maintaining contributions
- Providing information to member
- Internal dispute resolution
- Reporting breaches of the law

As a matter of best practice, we would expect all Administering Authorities to carry out a regular review of their approach against:

- the legal requirements underpinning the TPR Code of Practice, with a view to ensuring that these are being adhered to, and
- the guidance contained within the code, to consider whether the guidance should be adhered to or an alternative and justifiable approach should be taken.

This will also be an area of particular interest to LPBs as it is part of their statutory responsibility to assist in ensuring compliance with the TPR's Code of Practice.

The Pension Regulator carried out a survey of public sector schemes' compliance with the Code in the autumn of 2015, and has stated that it expects all schemes to have assessed themselves against the law and its code of practice.

Given the detailed requirements in TPR's Code of Practice, we have not considered whether the Croydon Pension Fund is compliant with the requirements. Instead we have tried to identify whether there is evidence of a check having been carried out against the legal and best practice elements of the Code. Unfortunately this does not appear to be the case, but we are aware that the officers of the Administering Authority do intend to carry this out in due course. We would recommend this is carried out as soon as possible, in particular to identify whether all legal requirements are being met.

Although this check has not been carried out, it is worth highlighting that, as part of this review, we have recognised a number of areas that demonstrate compliance with the TPR's Code of Practice including the LPB's Conflicts of Interest Policy and Training Policy.

4 - Delivery – How do you meet your aims?

In this section we consider whether the Fund:

- *has a business plan in place*
- *has an appropriate governance structure*
- *has people with the appropriate level of knowledge and skills*
- *has people with appropriate behaviours needed to make the governance effective.*

Business Planning

A Fund's business plan should set out all planned activities in the forthcoming period. Those activities:

- should be driven by objectives of the Fund's strategies and policies
- will include activities driven by changes in overriding legislation.

It is good practice for Funds to have a clear business plan. The LGPS Myners Principles published by CIPFA explicitly refer to this as follows:

"The CFO should ensure that a medium term business plan is created for the pension fund, which should include the major milestones and issues to be considered by the committee. The business plan should contain financial estimates for the investment and administration of the fund, and include appropriate provision for training. Key targets and the method of measurement should be stated, and the plan should be submitted to the committee for consideration.

The business plan should review the level of internal and external resources the committee requires to carry out its functions effectively and contain recommended actions to put right any deficiencies or to anticipate changing requirements in the future."

There is no explicit business plan for the London Borough of Croydon Pension Fund. However, some elements that would make up a business plan are undertaken, including:

- A forward plan of PC business
- Agreement of key areas of focus as part of officers' individual annual reviews
- A training plan

There is also clear evidence of key tasks being carried out at appropriate intervals, for example the periodical review of key strategies as part of the preparation of the annual report and accounts.

The current practice however could be improved and made more transparent with the development of a central business plan incorporating or summarising all of these elements in a single place of reference. Some of the key benefits of this would be:

- Clearer visibility and agreement of key tasks, which would in turn make it easier to ensure those tasks are in line with the agreed strategic direction of the Fund
- Ensuring the PC is in agreement with the areas being focussed on/planned for, and accordingly with where resources are being focussed, as well as assisting in highlighting any resourcing challenges in advance
- Formal agreement to the Fund's budgets for future years by the PC
- A longer term view (we would recommend a three year rolling plan) where recurring elements could be captured, such as review of providers (e.g. AVCs, investment consultant), which would provide PC members with the opportunity to highlight anything they think is currently missing

- Ensuring the PC is aware of and in agreement with future plans across the full spectrum of the Fund's activities (i.e. investment, funding, governance, administration and communications).

We recommend incorporating tasks into a business plan relating to all of the following areas, all of which should be considered in the context of the agreed strategies/aims of the Fund:

- legislation (e.g. valuation, implementation of a forthcoming legislative changes),
- performance monitoring (e.g. the review of an area of a service that is failing to meet the agreed service standard)
- standard practice (e.g. review of advisers, review of strategies and policies),
- the evolving environment (e.g. new investment vehicles, a greater focus on information technology efficiencies)
- risk management (e.g. reviewing staffing structure due to increasing manpower risk)

It will be important for the PC to recognise that that any business plan may need to be revised mid-year, for example, if new legislation is passed or a particular task is deferred for a particular reason. Further, we recommend that the PC is also provided with regular updates on progress against the agreed business plan, which can be presented at a high level, and which in turn will help them to consider if it does need to be reviewed or realigned. This lack of focus on business planning is also highlighted within the results of the questionnaire. Over half of those responding felt that they do not get appropriately involved in agreeing the Fund's business plan and are not kept up to date with progress against the plan.

Performance Measurement

Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should:

- illustrate whether the Fund's aims are being achieved
- cover the full range of key areas (e.g. investments, funding, governance, communications and administration)
- illustrate whether the Fund's business plan is being achieved
- be updated in accordance with appropriate timescales
- be presented in a manner that is easy to follow and understandable to those governing the Fund
- assist in identifying potential changes to the Fund's business plan, strategies, policies and aims.



At each PC meeting, a quarterly update report is presented including the following information:

- Total performance of the Fund's assets including against benchmark
- Individual manager performance and monitoring (e.g. fund manager discussions and visits)
- Market review and investment outlook



However, although investments are covered in detail, we have observed that reports to PC lack information in relation to monitoring of other areas such as funding, governance, administration and communication matters. As a result, the PC is not provided with sufficient information to allow them to identify successes or issues in the running of the Fund, such as delays in paying or notifying scheme benefits, resourcing issues or concerns with employer covenant arrangements.

Basic information is provided in relation to employer changes in the Fund and, as mentioned previously, training logs. However, we recommend that the Administering Authority reviews its wider monitoring arrangements to ensure all of the Fund's aims and objectives as articulated in the key strategies and policies are subject to ongoing monitoring at appropriate timescales. We would expect this to include areas such as:

- regular reporting of turnaround times and more qualitative measures in relation to the performance targets set out in the administration strategy
- more regular consideration of funding matters, such as funding levels, employer covenants and cash-flows, specifically focussed on the key objectives of the funding strategy statement

We would also expect ongoing monitoring reports to share information such as:

- identified breaches of the law (both those reported to TPR and those simply recorded by the Fund)
- monitoring progress against the Fund's budget including expected income and expenditure
- monitoring of key tasks included within the annual business plan.

It is possible to contain much of this information within a summary scorecard or another simple method of indicating at a high level any areas that are not meeting the requirements (but equally allowing PC members to easily identify how well the Fund is also doing). This could perhaps be as simple as an initial summary page within the appropriate report, which would assist in ensuring information is kept succinct where appropriate.

The lack of time spent on non-investment related matters is also highlighted within the responses to the questionnaires, with:

- the majority of those responding saying that there is not enough time spent on these or that more time could be spent on these.
- nearly half of those responding said that there were key areas that were not being covered at PC meetings, which also ties in with our observation that more focus is required on monitoring areas such as administration
- around half saying that they are not given sufficient information for them to know whether administration and communications objectives are being achieved, and
- over half of those responding saying that the administration, communications and governance strategies and policies were not brought to Committee for review sufficiently often.

Risk Management

Effective risk management is critical in minimising the impact and/or probability of undesirable events and in maximising the realisation of opportunities. Risk Management should be:

- aligned with the Fund's aims
- a key consideration in decision making
- systematic or structured
- an integral part of the Administering Authority's processes and procedures on a daily basis.

Although much of the focus of PC papers is around the key risks to the Fund from an asset management perspective, the Administering Authority does not have a risk management policy or a Fund specific risk register with appropriately documented internal controls. This is a key element of the day to day management of the Fund and is expected to be in place according to:

- CIPFA's guidance to managing risk in the LGPS (which particularly highlights that there is a great deal more to risk management in the LGPS than simply investment risk)
- CIPFA's Myners LGPS guidance
- The Pension Regulator's Code of Practice.

We recommend that the Administering Authority ensures a risk management policy is created for the Fund, and appropriate risk management procedures, including a risk register, are put in place with regular updates to the PC, perhaps at a summary level focussing on the high level risks.

It is, however, worth highlighting that the responses to the questionnaire do appear to show that most PC members and officers feel they understand the key risks to the Fund, albeit there is some room for improvement here.

5 - Decisions – Do you have effective decision making?

In this section we consider whether the Fund:

- *has an appropriate governance structure*
- *has people with the appropriate level of knowledge and skills*
- *has people with appropriate behaviours needed to make the governance effective.*

Appropriate governance structure

There is no one 'correct' governance structure. The Administering Authority's structure should:

- have clear terms of reference
- have a clearly documented scheme of delegation
- allow decision making at the appropriate level
- allow quick decision making where appropriate
- include appropriate representation from stakeholders
- involve well-presented information/reports
- allow sufficient time for discussion where necessary
- have good quality (committee) administration (e.g. issuing papers in good time)
- involve a process for managing conflicts
- provide transparency to stakeholders where appropriate.

These elements are considered in this section. For information, Appendix B includes information that has been extracted from the Council's Constitution relating to key elements of management and delegation in relation to the Fund.

The function of the PC

The functions (terms or reference) for the PC contained in Part 2 are stated to be:

"Management of the Council's Pension Fund, including matters related to employer liability".

☹️ This description of the role of the Pension Committee appears particularly brief, both compared to descriptions for other Committees within the Council, and compared to other Pension Committees in England and Wales. Although we would not recommend including too much detail, we believe it is important to be clear about what is expected to be carried out by the Committee. This could be resolved by including further elements such as setting and monitoring the administration strategy and agreeing the Fund's annual business plan.

The function of the LPB

☹️ Although not explicitly part of this review, we also note that the responsibilities of the LPB are stated to be:

"The Board secures the effective and efficient governance and administration of the Croydon Council Pension Fund"

We observe that this is not consistent with the LGPS regulations where the role of the LPB is included in the following provision:

"Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

- (a) *to secure compliance with—*
- (i) *these Regulations,*
 - (ii) *any other legislation relating to the governance and administration of the Scheme and any connected scheme, and*
 - (iii) *any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and*
- (b) *to ensure the effective and efficient governance and administration of the Scheme and any connected scheme."*

In particular we would stress the legislative reference to "assist" the administering authority, rather than being fully responsible for "securing" this. Although the role of the LPB in its Procedure Rules does articulate this wider role, we recommend Part 3 of the Constitution is updated to be consistent to avoid any confusion around where responsibility lies. Further, these Procedure Rules are not currently published as part of the Constitution, which we expect to be an administrative oversight which should be corrected.

Clearly documented Scheme of Delegation

As with all Councils, the Constitution includes elements such as Financial regulations and Tender and contract regulations. There does not seem to be any specific mention in relation to pension fund matters and therefore we would assume the elements contained within those apply equally to the pension fund management - for example, the Chief Financial Officer is responsible for selecting the Council's accounting procedures, records and policies and for monitoring and controlling expenditure against budget allocations.

We acknowledge that on a day to day basis many of the operational aspects within these procedure rules will be delegated to officers such as the Head of Pensions & Treasury or the Senior Pensions Governance & Compliance Manager. As this is a high level review, we have not considered this onward delegation, how it is formally delegated or any financial controls relating to it.

Appropriate representation

It is good practice for Administering Authorities to allow some representation for scheme members and employers. The Administering Authority provides this in a number of ways:

- The PC is made up of:
 - Eight London Borough of Croydon Councillors – with voting rights
 - Three (one staff side and two pensioner side) co-opted members – with no voting rights
- The LPB is made up of:
 - Independent non-voting Chair
 - Three employer representatives (one a London Borough of Croydon Councillor)
 - Three employee representatives

We consider that the involvement of the wide range of stakeholders across these two bodies provides good opportunity for them to feed into the decision making process. It is unusual not to have an employer representative (i.e. a representative of employers other than the Council) as a co-opted member of the PC, and indeed this would not meet the best practice included within the Secretary of State's Governance guidance. At the meeting in December 2015 it was suggested that the PC should include a co-opted representative of academies and we understand this will be considered further by the Council.

Appropriate level of decision making and quick decision making where appropriate

It is important that decisions are made at the appropriate level and that the governance structure is flexible enough to ensure that decisions can be made in a timely manner. It is our understanding that all decisions are made by the PC, but I did observe reference to responsibilities to delegating manager implementation to officers. However, the progress in relation to these responsibilities was clearly to be reported back to the PC.


Given the time at PC meetings is relatively short, I think this demonstrates good practice in that the PC recognises their responsibility to own strategic matters such as the asset allocation, but that matters that can add less value, such as manager selection, are delegated subject to appropriate oversight. So, on the face of it, the PC has the flexibility to operate appropriately and does make use of that flexibility. However, I did observe at the December 2015 PC meeting that there was some confusion around exactly what was delegated to officers. It is important that all PC members are completely clear about what is being agreed and that this is documented appropriately. Greater detail in the terms of reference might help determine any areas that could be delegated officially on a more permanent basis subject to ongoing monitoring.

Well-presented information/reports

Information and reports are provided to the PC by officers and various advisers (including the investment consultant). Our view is the information and reports are well constructed and presented. In addition when observing the PC in December 2015, we were pleased to see a high level of interaction between PC members, officers and advisers including:

- Officers introducing reports in a clear and concise manner, and taking longer reports in a logical step by step manner,
- The Assistant Chief Executive and S151 Officer, and Head of Pensions and Treasury delegating questions to other officers who are more specialist in the subject matter at hand.

This view is backed up by the findings of the questionnaire, with the majority of responses saying that all officers and advisers were understandable and that the information presented within the reports or with reports was "about right". However, there were a number of respondents who suggested there could be more PowerPoint style slides (including printed) used to introduce a report. From our experience, we recognise that a highly complicated matter can benefit from a small amount of time dedicated to it in this way.

 It is also worth highlighting that the results of the questionnaire show that more than half of those responding said that they sometimes did not feel that they received sufficient points of view when provided with information. Further, nearly half said that sometimes they feel that the information they receive does not properly equip them to make a decision. It is difficult for us to comment on these points based on this high level analysis, but clearly they are matters that should be kept under review. Ongoing training and access to officers and advisers will be key to reducing any concerns including clarity on other options within reports. This might also be a reason to review the need for an Independent Adviser (mentioned elsewhere in this report).

Sufficient time for discussion

Based on the meeting I observed, there appeared to be appropriate time to discuss all the items on the agenda in an appropriate level of detail. However, we would recommend that this area remains under observation, particularly given our earlier comments on the breadth of information coming to the PC.

Good quality (committee) administration

In common with most local authorities, Croydon appear to generally be very good at administration with:

- all reports being issued at least five working days in advance of meetings,
- minutes signed off as a true record by the PC,

- well laid out reports with clear recommendations, and
- each paper referring to the Corporate Priority/Policy Context which provides an opportunity to link the contents of the paper back to the specific objectives of the Fund's strategies, such as the Funding Strategy Statement or the Administration Strategy.

We do, however, highlight a minor area for consideration - each paper refers to the relevant Cabinet Member but, given this is a non-executive committee, we do not understand how this is relevant. Further, responses from the questionnaire highlight that the minutes could be more detailed in places, and particularly where PC members (including co-opted members) have asked questions or raised concerns.

It has also been highlighted in the questionnaire that there have been a number of changes in committee clerk in the past few years which has caused some difficulties. We would strongly encourage the Council to try to avoid change and we also recognise the benefit of having the same committee clerk for both the PC and LPB (as it is at the moment).

Some of the questionnaire responses highlight that the minutes are brief in places and do not always record key questions and discussions that take part during decision making. We agree that the minutes do appear quite brief, and recommend that they include more detail around the discussions and areas the PC (including co-opted members) have raised.

Managing conflicts of interest

Each London Borough of Croydon elected member and any co-opted member is required to complete a registration of interest which is a public document declaring disclosable pecuniary interests, and some non-pecuniary interests. A pecuniary interest is generally considered as an interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person. This would cover areas such as land ownership, involvement with businesses and gifts or hospitality.

There is a further requirement under the Code of Conduct for members to declare any such interest at the start of a Council meeting if it is not already on the register. Generally speaking, members cannot and should not participate in decisions in relation to which they have a pecuniary interest. These procedures are quite clear and helpful in matters such as consideration of fund investment vehicles.

However, there will be examples whereby a member does not have a clear pecuniary or non-pecuniary interest as defined by the Council's Code of Conduct, but instead has a personal or professional conflict of interest that needs to be managed appropriately. For example,

- Being a member of the LGPS
- Having separate responsibility for an employer who participates in the Fund

In this latter example, there may be circumstances where it is necessary for PC members (administering authority elected members) to balance their employing authority responsibilities (e.g. maintaining local service provision) against their administering authority responsibilities (e.g. ensuring appropriate payments by all employers into the Fund). This could potentially extend to political views whereby some councillors may have different views than other councillors from differing political parties, for example, in relation to investment in local infrastructure or environmental, social and governance (ESG) matters. Recent Queen's Counsel opinion and the Law Commission report conclude that ultimately PC members, and all those concerned with the management of the Fund, should remain focussed on the underlying fiduciary and public law responsibilities. This means that Fund assets should be invested in the best interests of members and beneficiaries (and, indeed, I was pleased to hear indirect reference to this by one of the PC members at the December 2015 meeting). The potential for interests that could conflict with Fund matters, and this ultimate responsibility, should always be recognised and managed appropriately. A Fund Conflicts of Interest Policy could ensure this point is clear to all involved. It is, however, worth highlighting that this would not necessarily require individuals to be removed from meetings and/or decision making.

Some of our observations in relation to the Fund are:

- The Council's Code of Conduct requirements in relation to disclosable pecuniary and some non-pecuniary interests are a useful starting point for managing conflicts. However, there are circumstances where other interests could have an impact on impartiality in the Fund's decision making
- At the December 2015 meeting, we were please to observe that the Chairman asked for all declarations not on the register to be disclosed
- We note that there is no registration of interest on the Council's website in relation to the co-opted members on the PC (which may or may not suggest declarations have not been completed).
- It is worth noting that, in the results of the Effectiveness Questionnaire, four individuals stated they had not received training on Conflicts of Interest.

Clearly there are some positive elements in relation to the existing arrangements and it was pleasing that I did not observe any particular matter which demonstrated a lack of understanding about potential conflicts at the meeting. However we believe this is an area that could be improved upon, particularly in relation to potential conflicts of interest that are Fund specific and would not therefore be highlighted through the Council's arrangements in the Code of Conduct. The CIPFA Guidance for LGPS Funds in Preparing the Annual Report refers to the information contained within the Fund's Governance Compliance Statement including their "policy and processes for managing any conflicts of interest". It is also a key area of interest for both the Scheme Advisory Board and in The Pension Regulator's Guidance, albeit more focussed on LPB members.

Clearly this is not a legal requirement but, as mentioned earlier in this 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.

The existing policy for the LPB could be expanded to apply to the wider Fund management including the PC, and also expanded to cover the points above where they are not already included. We recommend that this policy is complemented by periodical training in relation to Fund specific conflicts of interest as well as being compulsory for new PC and LPB members as well as Fund officers.

Transparency to Stakeholders

As with all public services, it is important that stakeholders have appropriate access to Fund information, including regarding the governance of the Fund. In this regard the Administering Authority's activities are appropriately driven by local authority legislation, for example:

- the requirement to provide public access to meetings (except for exempt items), and
- the requirement that all reports, agendas and minutes are to be published (except for exempt information).

In addition, the LGPS regulations require each Administering Authority to produce and publish an annual report and accounts providing key financial information, management information and strategies. This requirement is enhanced by the (non-statutory) CIPFA Guidance for LGPS Funds in Preparing the Annual Report.

Our observations are that the Administering Authority demonstrates compliance with all of these requirements as well as stakeholder involvement being enhanced through the PC and LPB membership.

Further the Administering Authority maintains an excellent website which includes the following information relating to the governance of the Fund:

- all of the Fund's key strategies and policies
- the Annual Report and Accounts
- links to PFC reports, agendas and minutes.

We note that generally there are few items that are considered exempt from the public at PC meetings, such as items related to manager monitoring and employer updates. We are observing less manager monitoring papers being exempt at PCs, and so recommend that the Council continues to review whether this is necessary. Any proposed change may require the Council to speak to any consultants preparing this information.

We acknowledge that there will be times when the information relating to employers could result in divulging the financial affairs of an authority. However, it was highlighted at the December 2015 meeting by a member of the PC that one of the employer items did not need to be exempt and we therefore recommend ongoing consideration of the need for items to be exempt or not.

Skills and knowledge

A critical element of good governance is the need for those managing the Fund to have the appropriate level of knowledge and skills. The current requirements relating to training of PC members and officers of LGPS Funds are included in the following documents:

- CIPFA Code of Practice on public sector pensions finance knowledge and skills
- CIPFA Knowledge and Skills Framework – Elected representatives and non-executives
- CIPFA Knowledge and Skills Framework - Officers

In addition, Scheme Advisory Board's Guidance and The Pensions Regulator's Code of Practice, (albeit focussed on LPB knowledge and skills legal requirements), highlight the need for the Administering Authority to have appropriate policies and procedures in place to ensure a high level of knowledge and skills.

Though adhering to the CIPFA documents is not statutory, they are considered good practice and there is increasing acceptance of the need for high levels of knowledge as well as increasing scrutiny of this by PC members and officers. The key elements of the CIPFA requirements are that Administering Authorities:

- clearly articulate the knowledge and skills requirements in a Fund policy
- provide ongoing training in an effective and suitable manner to meet those requirements
- regularly review whether knowledge aspirations are being met
- ensure that they rely appropriately on officers and advisers to provide expert knowledge.

These elements are considered in this section. Our focus within this section is on the requirements relating to PC members.

Before drilling down into the detail though, it is worth highlighting that the results of the questionnaire do show that most respondents consider their role on the PC to be difficult at times. This highlights the importance of providing good quality ongoing training.

Clearly articulated knowledge and skills requirements in a Fund policy

As mentioned in Section 3, although it appears that the Administering Authority has formally adopted the CIPFA Frameworks and Code, it does not have a Training Policy documented (other than that for the LPB and a document called a Training Policy which is more akin to a Training Log with a brief introduction). We therefore recommend that the Administering Authority considers implementing such a policy to set out its policy and approach to training, which could include the following:

- A statement regarding embracing the CIPFA Framework (or an alternative)
- How training will be provided
- Qualifications the Administering Authority will encourage (if relevant)
- Expectations in relation to training attendance (perhaps even to the degree that all PC members must attend at least 1 key conference per year)
- Specific requirements in relation to new members (e.g. the requirement to undertake induction training)
- How knowledge requirements will be regularly assessed and monitored
- An individual within the Administering Authority who is ultimately responsible for ensuring the policy is adhered to (CIPFA recommend this should be the Section 151 Officer's responsibility).

We recommend that all of the above points are considered separately for officers, PC members and LPB members, effectively amalgamating the existing LPB policy into this so there is one single Fund policy on training.

Providing ongoing training in an effective and suitable manner to meet those requirements

We believe it is important to provide a wide range of training opportunities to PC members via a range of different approaches. For example, in addition to ensuring that PC members are aware of all the key elements of managing the Fund, we believe it is important that they have the opportunity to learn about areas that the Administering Authority may not currently be focussed on. A key skill of a good PC member is to be able to identify where information is not provided in reports, and therefore to be able to ask questions relating to alternative options that are not under consideration (i.e. turning the unknown unknowns into known unknowns).

The Fund publishes a training log each year explaining how training is approached. Based on the training logs for 2013/14 and 2014/15, there appears to be a good number of training opportunities and also relatively good attendance at training events amongst full PC members and co-opted members. The training log would benefit from a key to describe the various symbols.

We note that, in common with many other LGPS Funds, the focus of the training requirements that are publicly available are on PC members, rather than officers. Clearly officers' skills need to be at quite a different level than PC members. We observe that officers regularly attend external events which we consider to be useful to maintaining appropriate knowledge, and we recommend that this is also clearly documented in a training log.

Regularly review whether knowledge aspirations are being met

The training log, as it stands, does not provide an overall assessment against the CIPFA knowledge and skills framework to allow one to understand whether PC members have had appropriate training in the required competencies. It is also not possible to determine, where members are expected to attend training but have failed to do so. We would recommend these points are considered as part of the implementation of the Training Policy.

It is also worth highlighting some of the findings from the questionnaires given to PC members and officers in relation to this area:

- The majority view amongst those that completed the questionnaire is that they believe they have received sufficient training
- However, when asked if the PC has the appropriate knowledge most said there were one or two areas where this is not the case and some said there were a number of areas where this is not the case
- It was acknowledged by some that changes in PC membership impact on the overall knowledge and skills of the PC (which is to be expected when long standing members are replaced by new members with little or no pensions knowledge)

Rely appropriately on officers and advisers to provide expert knowledge

Given very few PC members are pension professionals, it could be risky for PC members to make decisions on their own purely based on the training given to them. The Administering Authority provides a wide range of experts for the PC members to tap into; officers (multiple), consultants and, previously, an independent investment adviser, as well as also engaging with Fund Managers to utilise their expertise. We observed the input of the investment consultant at the December 2015 PC meeting, and also reports from the Fund actuary at that meeting, which we consider to be positive.

The questionnaire completed by PC members and officers shows that the majority think the information being provided by officers and advisers is of a high standard, albeit three out of five actual PC members highlighted that they could do with seeing the actuary more often and two out of four said they could do with seeing the investment consultant more often. This could be an indication of the need for greater assurance or of the desire for more time to be spent on certain funding or investment matters.

From observing we were extremely encouraged by how PC members engage with those experts (both officers and consultants) and are keen to hear their views.

Although I am not aware of the history of the removal of the role of independent adviser to the Fund, this was highlighted as an issue within some comments received in the questionnaire. An independent adviser can provide a wider range of expertise to give greater assurance to the PC on the decisions being made, particularly where there has been a large degree of change in the management of the Fund, such as significant changes in PC members, key officers and/or Investment Consultant. Should that occur, it may be worthwhile for the PC to reconsider whether this is a role they wish to reinstate through a robust appointment procedure. All advisers and consultants should also be subject to ongoing monitoring and to a further appointment/procurement process at the end of a fixed term contract.

Behaviour

A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should:

- have a high level of attendance at meetings
- demonstrate integrity in relation to their Fund role
- be engaged and provide appropriate challenge
- be accountable for the decisions made
- highlight any potential conflicts they may have
- for a Chairperson, manage the meetings fairly without any bias to individuals or self
- prepare adequately for meetings.

These elements are considered in this section. Much of the information derives from observations of the PC at the December 2015 meeting. It also captures particular themes from the Questionnaire completed by PC members and officers.

Attendance at Meetings

The PC meeting in December was well attended with all but one co-opted PC member present. The 2015 attendance record in the annual report and accounts also demonstrates strong ongoing attendance.

General Behaviour

This element can be easily aligned with the General Principles of Public Life which are adopted by the London Borough of Croydon as part of their members' Code of Conduct. These principles are:

1. Selflessness
2. Integrity
3. Objectivity
4. Accountability
5. Openness
6. Honesty and truthfulness
7. Leadership

and they also apply to co-opted members.

There is always a danger that decisions are made by PC without full and appropriate discussion, debate and challenge. Equally there is a risk that too much time can be spent on matters of little importance/value. From my observation at the PC meeting, I could recognise the above principles being applied by PC members and officers, and felt that generally the balance of discussion was good. Some specific observations are:

- Members demonstrated respect for officers and advisers asking questions and allowed appropriate time to hear their views, as well as on occasion acknowledging the workloads of officers
- Members were all engaged with all but one individual at some point asking questions or providing their views
- The range of questions being asked demonstrated the wish to ensure potential alternative options were also understood
- Members were keen to hear the views of all officers and advisers on specific matters
- All members appeared engaged throughout
- One member highlighted an area where he did not understand what was within the report and asked questions to gain appropriate understanding before agreeing the recommendation. It is a credit that the PC meetings take place in an atmosphere where this can be done.
- The Chairman demonstrated strong chairing skills, as the meeting did not feel rushed and we observed on a number of occasions the chairman ensuring there were no further questions before moving on.
- The Chairman was quite clear in ensuring the recommendations were agreed prior to moving onto the next agenda item.

The only areas we would wish to highlight as potential areas of concern are as follows:

- A number of comments from different individuals in the questionnaire highlighted that there appears to be some cross political party tension coming through as part of meetings, with 'point-scoring' highlighted as happening relatively frequently. I did also observe some elements of this at the December PC meeting, albeit I would say that final decisions made at that meeting were not, in my view, impacted by it. There were also concerns highlighted in the questionnaire about the amount of discussion at pre-meetings rather than during the open forum of the PC, giving a feeling that decisions are sometimes effectively made outside of the PC meetings. It is inevitable that views of individuals from the same political party are likely to be more aligned. However, comments coming through from the questionnaire highlight frustration from some PC members and officers. It is interesting to note that at least one elected member specifically noted that the PC should not be political. We would therefore encourage all PC members to be mindful of this, with a view to ensuring political views do not impact the effective flow of the PC.
- although it was not something I specifically observed, there does appear to be some concern, particularly by co-opted members, that their comments are not always taken on-board when decisions are made. It is hoped that the ongoing participation by the Chairman of the LPB can assist with ensuring that all stakeholders feel they have appropriate opportunity to be involved in discussions, whilst acknowledging that the final decisions do rest with the voting PC members.

Appendix A – Reference Material

This appendix lists the various documents that were considered as part of this Governance Review.

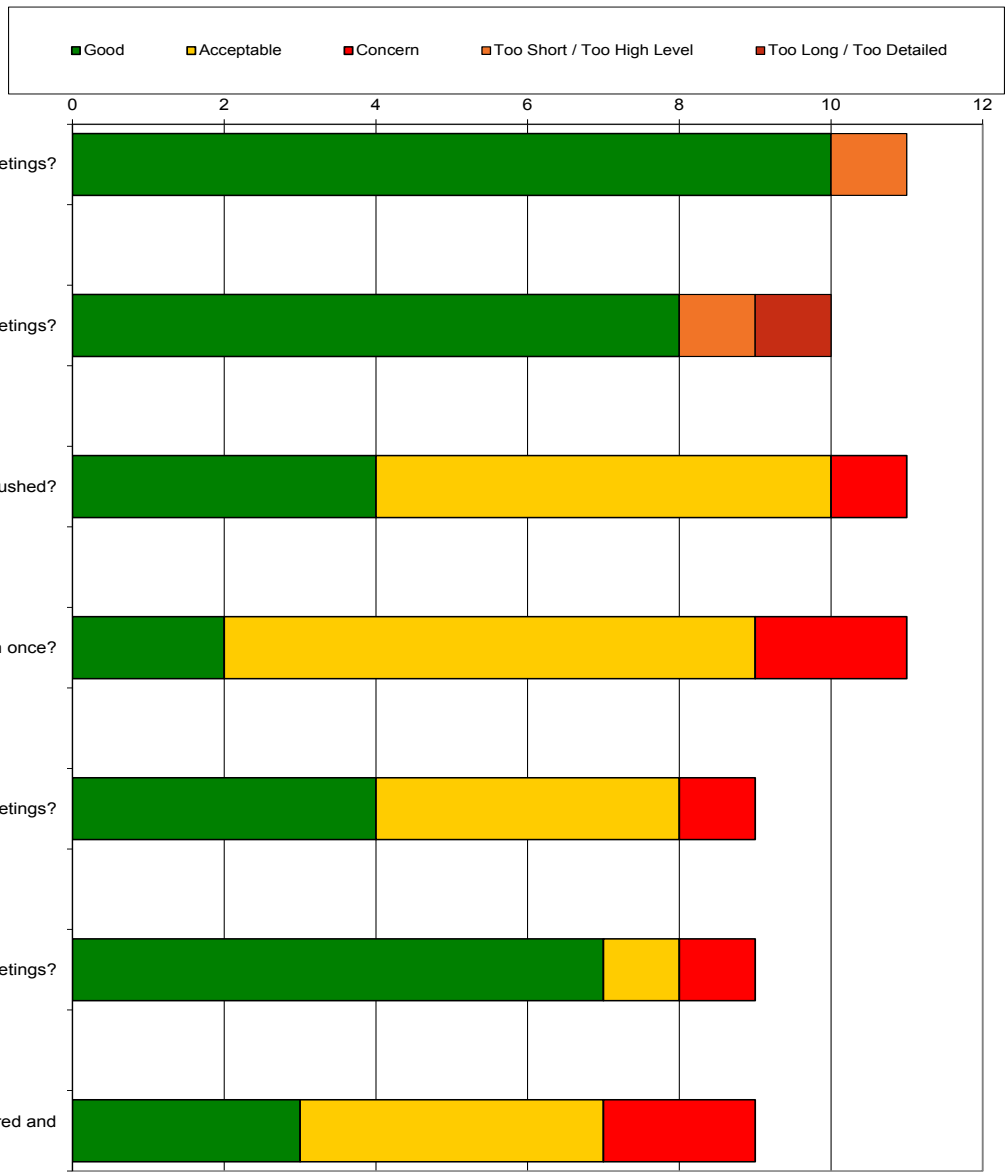
- Various Pension Committee and Local Pension Board meeting packs and minutes (focussing on the period from December 2014)
- The London Borough of Croydon's Constitution
- Administration Policy
- Annual Report 2014/15
- Communications Policy
- Funding Strategy Statement
- Governance Compliance Statement
- Statement of Investment Principles
- Valuation Report 2013
- Pension Committee Training Log
- LPB Terms of Reference and Policies (Breaches, Conflicts, Training)
- Statement of Investment Principles

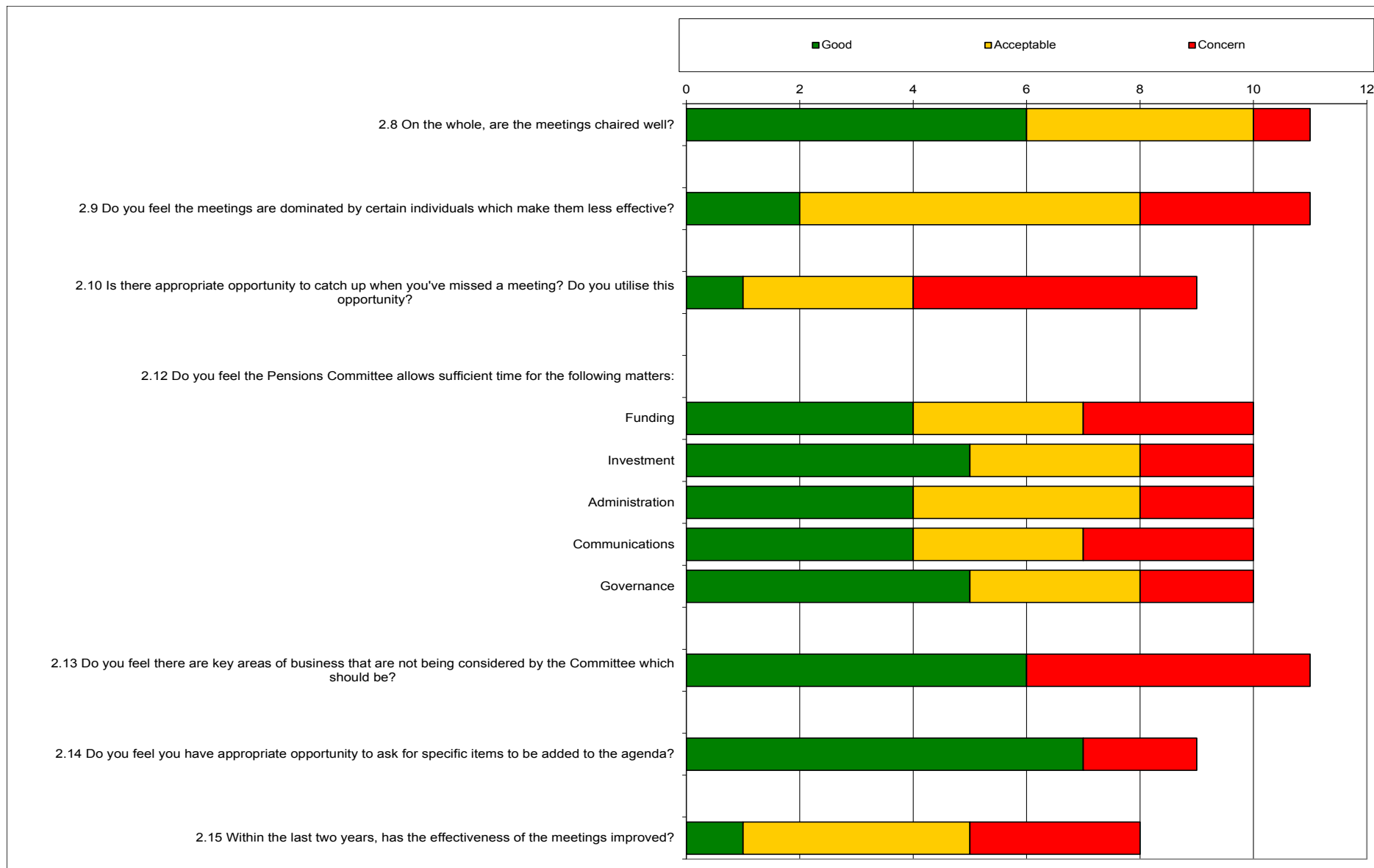
Appendix B – Effectiveness Questionnaire

We show below the results of the effectiveness questionnaire which was provided to all members of the PC, including co-opted members, and key officers of the Fund. The questionnaire was completed by 12 persons (out of a possible 16), albeit one was received too late in the day to be amalgamated into the results.

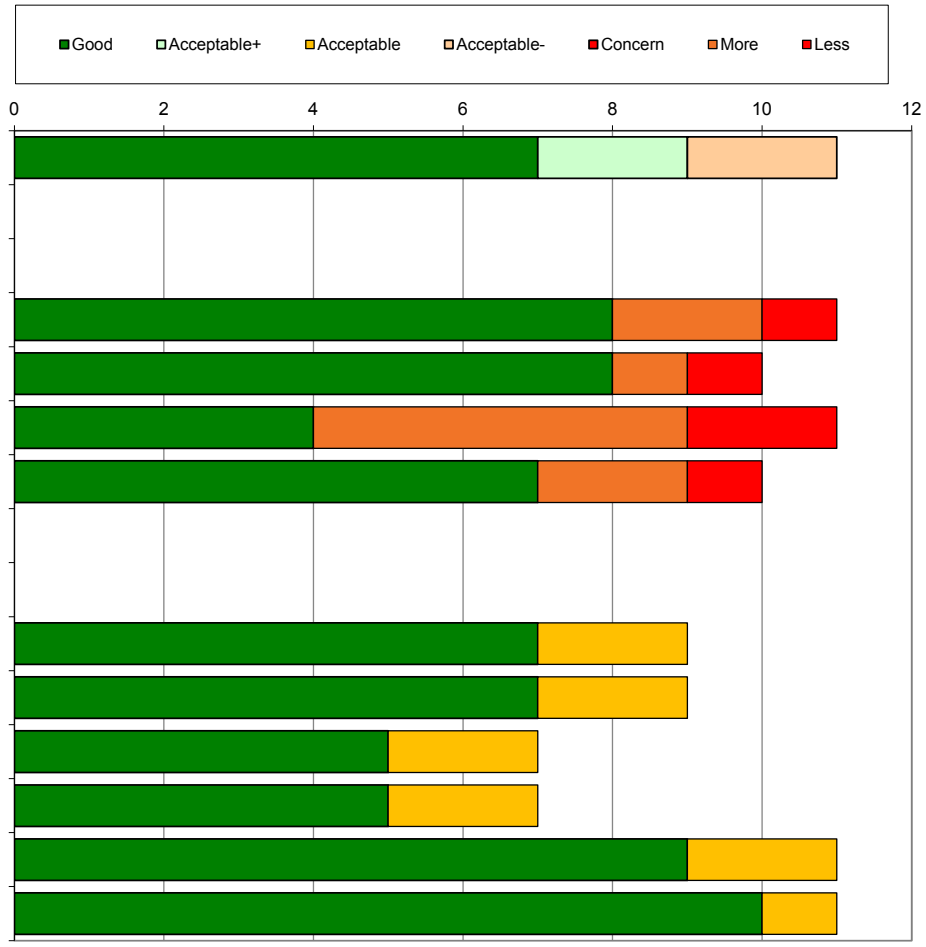
The bars in the graphs are colour coded to highlight particularly positive or negative answers. A key is provided on each page.

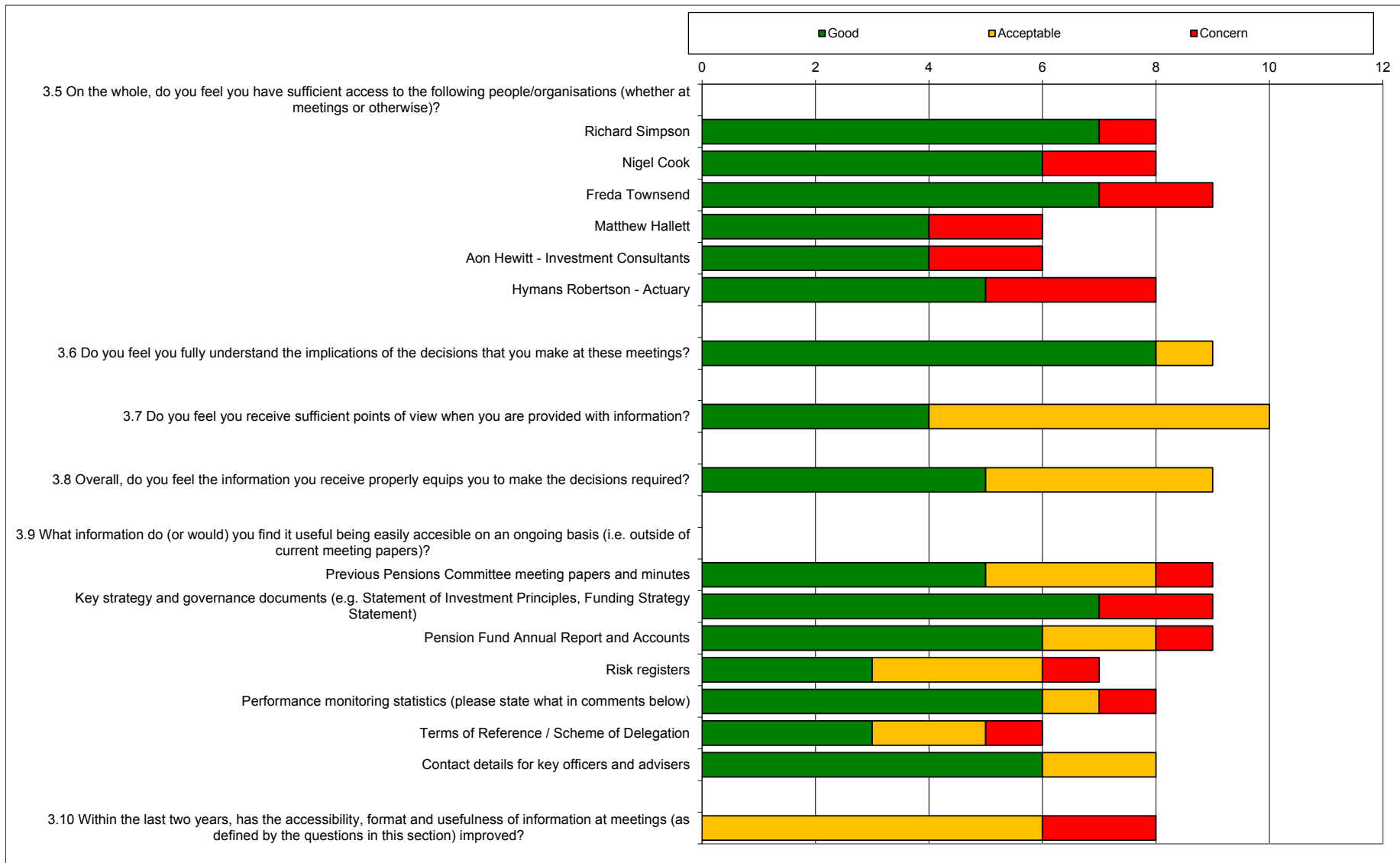
Section 2
Effectiveness of Meetings



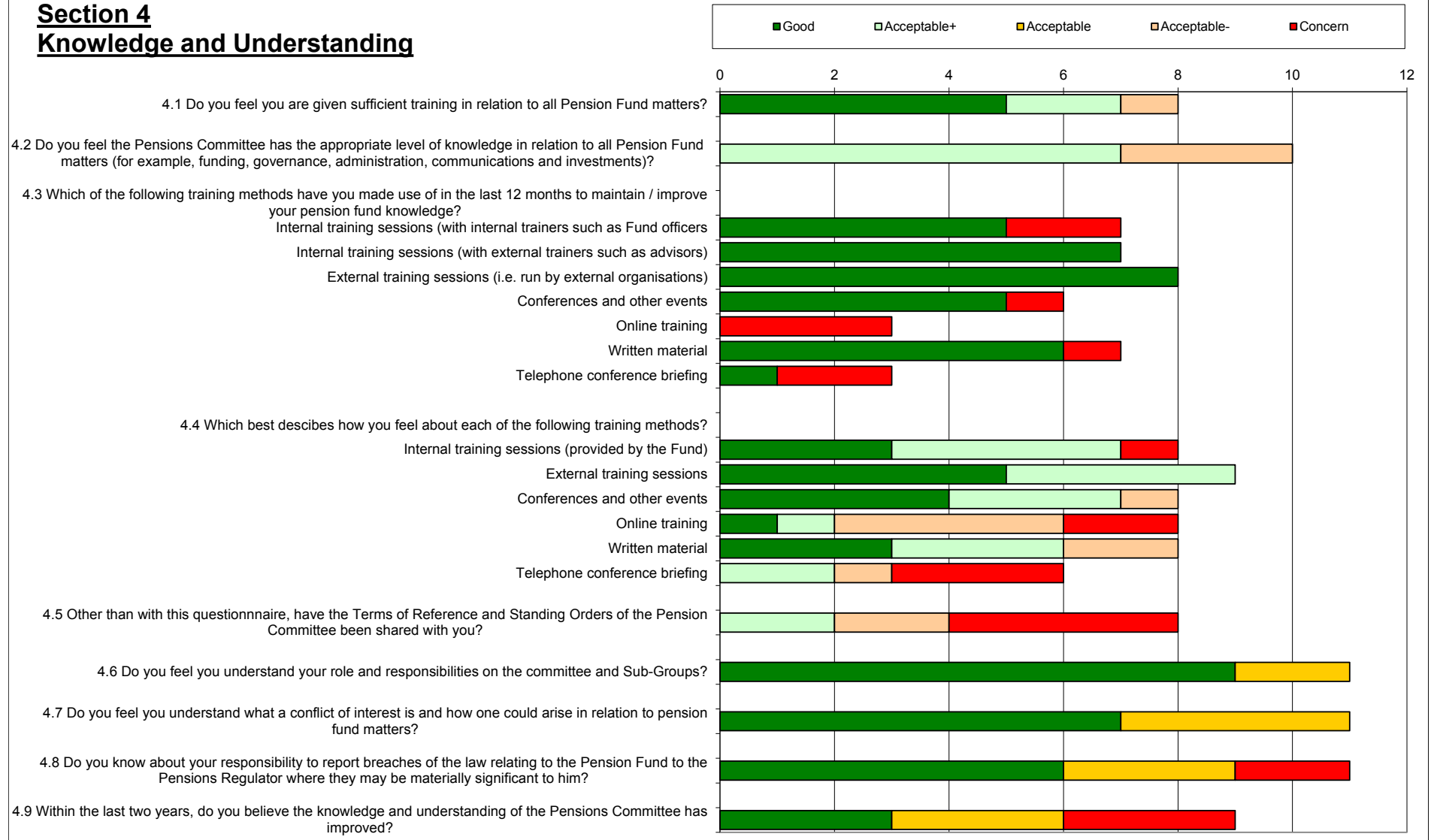


Section 3
Accessibility and Format of Information

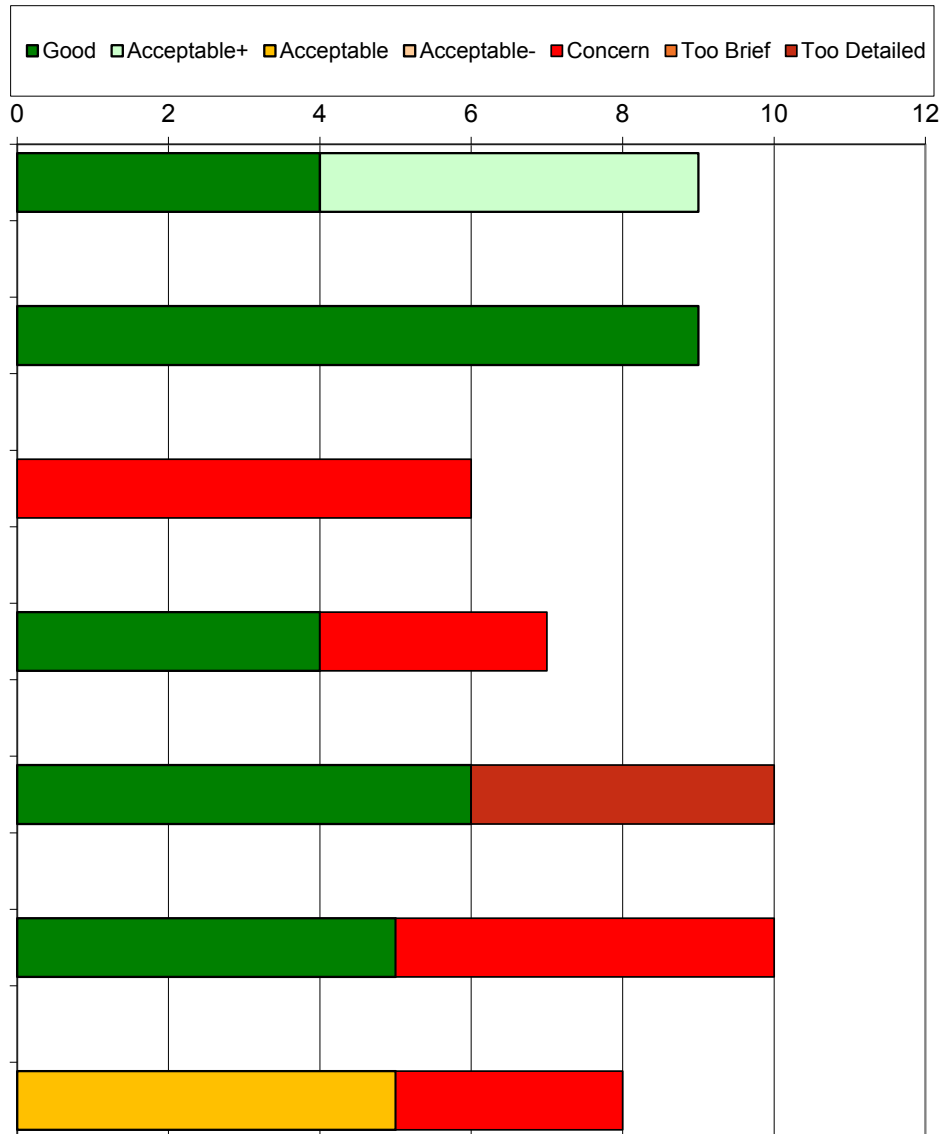




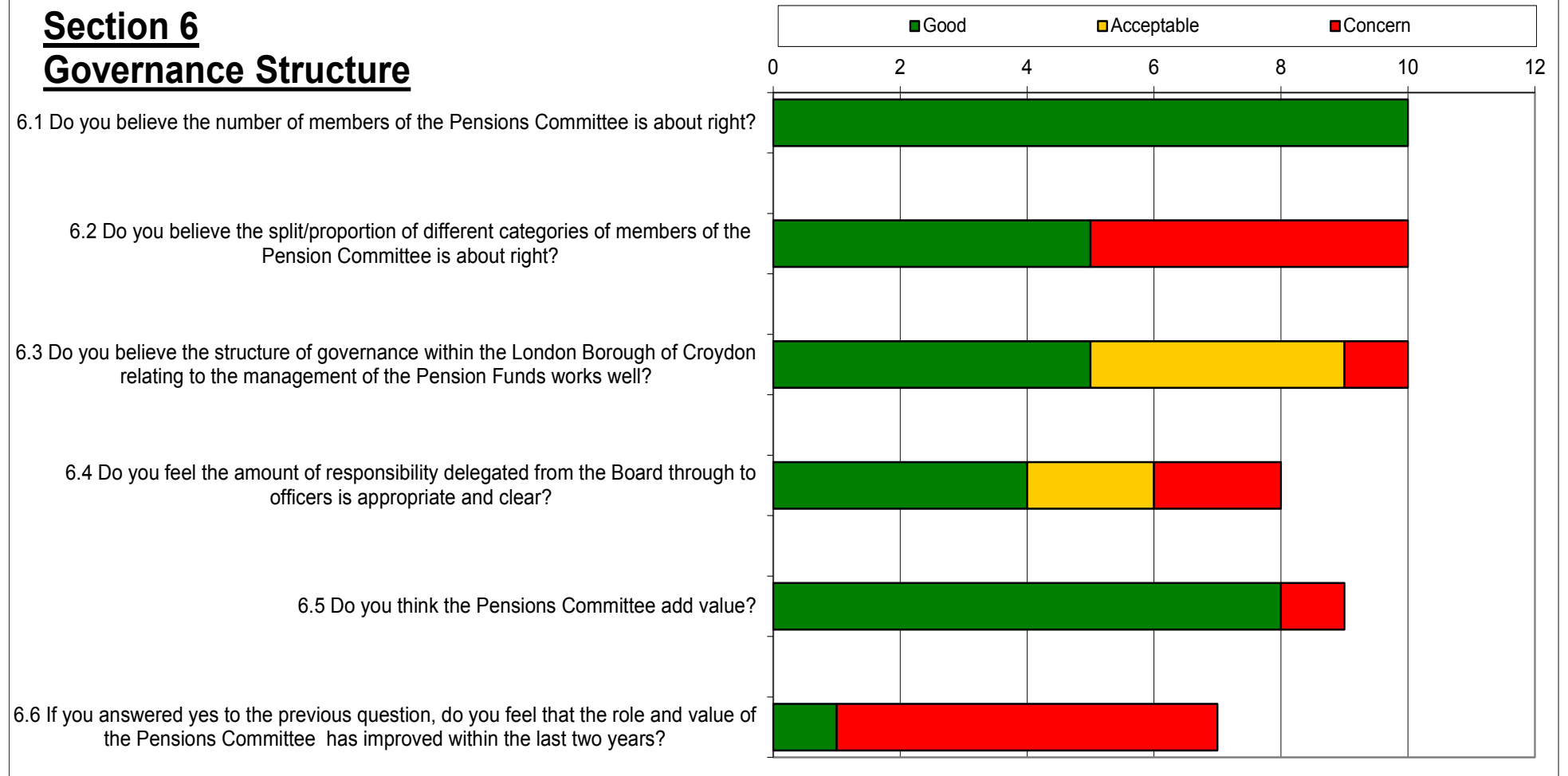
Section 4 Knowledge and Understanding



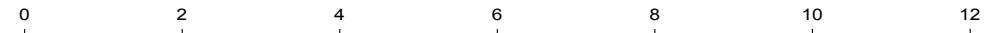
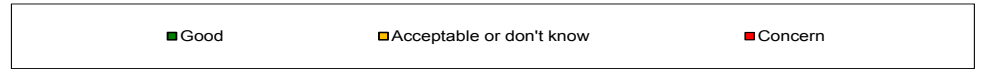
Section 5 Administration of Meetings



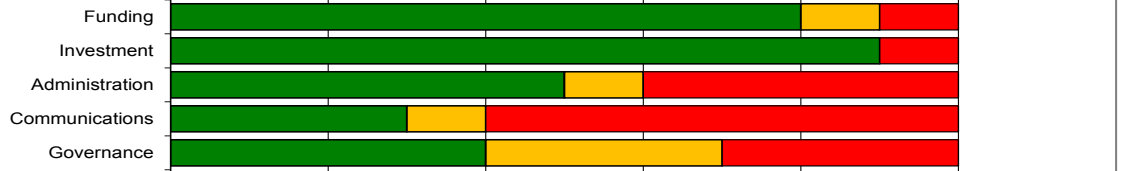
Section 6 Governance Structure



Section 7
Vision for the Future



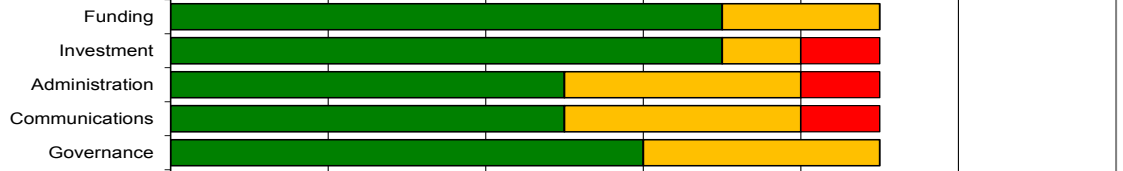
7.1 Do you believe the Pensions Committee has set clear objectives for the Fund in relation to:



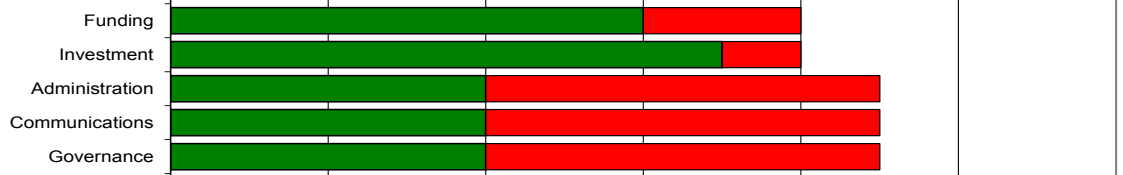
7.2 Do you feel that you are given sufficient information to understand whether or not these objectives are being achieved on a regular basis?



7.3 Do you feel the Fund has appropriate strategies and policies that articulate how these objectives will be delivered?



7.4 Do you feel these strategies and policies are brought back to the Committee for review sufficiently often?



7.5 Within the last two years, has the Pensions Committee's vision for the future improved?



**Sections 8 Compliance, 9 Business Planning,
10 Risk Management & 11 Summary**



Contact Information

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