

Pension Committee Agenda



To: Councillor Andrew Pelling (Chair)
Councillor Simon Hall (Vice-Chair)
Councillors Patricia Hay-Justice, Clive Fraser, Robert Canning,
Luke Clancy, Simon Brew, Yvette Hopley, Gill Driver and Peter Howard

Reserve Members: Maddie Henson, Jamie Audsley, Sherwan Chowdhury,
Steve Hollands, Rob Ward and Stuart Millson

A meeting of the **Pension Committee** which you are hereby summoned to attend,
will be held on **Tuesday, 5 June 2018 at 10.00 am** in **Council Chamber - Town
Hall**

JACQUELINE HARRIS-BAKER
Director of Law and Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

James Haywood
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www.croydon.gov.uk/meetings
Friday, 25 May 2018

Members of the public are welcome to attend this meeting.
If you require any assistance, please contact the person detailed above, on the
righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at
www.croydon.gov.uk/meetings

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Minutes of the Previous Meeting (Pages 5 - 10)

To approve the minutes of the meetings held on 13 March 2018 and 23 May 2018 as an accurate record.

3. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. Investment Strategy Training (Pages 11 - 26)

To receive a brief initial training session

6. Grant Thornton Report - Croydon Pension Fund Audit Plan 2017/18 (Pages 27 - 42)

To receive the Croydon Pension Fund Audit Plan report for 2017/2018.

This item is for information only following its presentation at the 15 March 2018 meeting of the General Purpose Audit Committee.

7. **Progress Report Q1**
To Follow
8. **Options for Asset Transfer**
To Follow
9. **London Collective Investment Vehicle Update**
To receive an oral update and Q&A
10. **Governance Review**
To Follow
11. **Risk Register Review**
To Follow
12. **Forward Plan**
To Follow
13. **Investment Advisor Appointment**
To Follow
14. **Exclusion of the Press and Public**
The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

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

PART B

15. **Minutes of the Previous Meeting (Pages 43 - 44)**
16. **Progress Report B**
To Follow

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Croydon Council

REPORT TO:	Pension Committee 5 June 2018
SUBJECT:	Review of the Risk Register
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Resources
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT:	
Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY:	
Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

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

2. EXECUTIVE SUMMARY

- 2.1 It is recommended best practice for the Pension Committee to maintain a risk register. This report presents the current risk register for the Committee's consideration.

3. DETAIL

- 3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording all relevant risk scenarios, together with an assessment of their likelihood and impact and the appropriate mitigations. This report provides the Committee with a report covering risks relating to governance, funding, assets and liabilities, and operational risks.
- 3.2 The Committee is invited to comment upon whether it considers this list sufficiently exhaustive, whether the assessment of each risk matches its perception and to comment on the adequacy of future and existing controls.

- 3.3 The risk register will be reviewed periodically and brought back to the Committee for its consideration twice each year – the register was most recently reviewed in December 2017. Members will be familiar with the corporate risk register: this Pension Fund risk register is distinct from that document and an innovation in that previously the Committee has not had the opportunity to formally track risks relating to the Fund and Scheme in such a comprehensive manner.
- 3.4 As a result of a review of risks, no new risks with a risk level of 12 or above have been identified but five risks have been de-escalated:
- Academies are much better at reporting on their staff;
 - Acknowledging the governance review;
 - Recognising the London CIV is now firmly established;
 - Reflecting the S.13 GAD report; and
 - The MiFID II exercise has been completed.
- 3.5 The register shows that the most significant risks for the Scheme relate to cessation valuation debts not being paid; academies not paying contributions; and investments under-performing. The register is appended to this report – it shows only those risks that are scored 12 or higher in the current year; risks are rated on a scale of 1 to 5 on likelihood and impact giving a range of potential scores between 1 and 25. Where a risk has been down-graded to below 12 it will be taken off this report. Similarly, new risks that are scored lower than the threshold noted above, do not feature on the register.

4 FINANCIAL CONSIDERATIONS

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

5 OTHER CONSIDERATIONS

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

6 COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 6.1 The Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within the report and to the extent that the risk register itself presents matters which raise legal issues, specific advice will need to be sought from the Council's legal team.as and when such matters arise.
- 6.2 Approved by: Sandra Herbert, Head of Litigation and Corporate Law, for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer.

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

BACKGROUND DOCUMENTS: None

APPENDICES: Appendix A: Risk Register (excerpt)

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Pensions Risk Register

Risk Scenario	Assigned to	Existing Controls	Current Risk Rating			Future controls	Future risk rating		
			Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
Governance Risks									
If other scheme employers cease for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to the Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	5	15	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk.	3	4	12
Funding - Assets and Liabilities									
The Fund's invested assets are not sufficient to meet its current or future liabilities.	Nigel Cook	A formal actuarial valuation is carried out every three years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years. Although this needs to be done efficiently and in a cost effective manner.	4	2	8
Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Matthew Hallett	The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and Officers monitor the cashflow carefully on a monthly basis. The Council is currently forward funding the Pension Fund which provides a buffer. This cash will be invested in liquid assets to mitigate this risk.	3	4	12	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives and are in the process of amending the current policy of reinvesting dividend income to make up the shortfall. Investments have been identified that are dividend yielding.	3	2	6
There is a current risk that academies are not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. The most significant case, in terms of contributions due, is currently being considered by the Pensions Ombudsman. The Council has written to the Ombudsman to ask for a timely resolution of this case but no timetable for completion has yet been offered.	3	5	15	This is likely to be an issue requiring attention for some time.	3	5	15

<p>Under the S.13 reporting regime, the Government Actuary Department, (GAD), form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, this fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the fund.</p>	<p>Nigel Cook</p>	<p>The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years.</p>	<p>4 3 12</p>	<p>The authority will revisit the funding position at the next triennial valuation and can adjust contribution levels.</p>	<p>4 2 8</p>
<p>Investment Risks</p>					
<p>There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternates - which potentially leaves the Fund exposed to the possibility that class of assets will underperform relative to expectation.</p>	<p>Matthew Hallett</p>	<p>The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio, if it underperforms relative to expectation. It is recognised that the portfolio is currently overweight equities.</p>	<p>4 4 16</p>	<p>A new asset allocation was agreed in September 2015 and Officers are working on moving towards that allocation to remove the current overweight position towards equities.</p>	<p>5 2 10</p>
<p>Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.</p>	<p>Matthew Hallett</p>	<p>The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.</p>	<p>4 3 12</p>	<p>Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18</p>	<p>4 3 12</p>
<p>There are a number of current specific geopolitical risks. The administration of US President Trump can be considered an unknown factor in so far as its impact on the US economy. To date this has been largely benign and the US markets have reacted positively. Other ongoing concerns include the impact of Brexit, the Euro crisis, the growth of the Chinese economy and the impact of populist movements.</p>	<p>Matthew Hallett</p>	<p>Equities have performed well to the extent that the Fund is currently over-weight in the asset class. This is being addressed by moving cash into alternate asset classes. Currency hedging is an option to address potential volatility as is some form of synthetic hedging.</p>	<p>4 3 12</p>	<p>By 2019 the overweight position in equities should have been invested in alternate asset classes thus reducing this risk.</p>	<p>3 2 6</p>
<p>Operational Risks</p>					

Risk Matrix

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5 Almost Certain
4 Likely
3 Possible
2 Unlikely
1 Rare

		IMPACT				
		1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Catastrophic
5	Almost Certain	5	10	15	20	25
4	Likely	4	8	12	16	20
3	Possible	3	6	9	12	15
2	Unlikely	2	4	6	8	10
1	Rare	1	2	3	4	5

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