

# Pension Committee Supplementary Agenda



- 9. Knowledge and Skills Policy (Pages 3 - 10)**  
For Members to receive and review the revised Knowledge and Skills Policy.
- 10. Revisions to the Asset Allocation Strategy (Pages 11 - 14)**  
For Members to receive and review the revised Asset Allocation Strategy.  
  
Papers to follow.
- 13. Revisions to the Asset Allocation Strategy (Part B) (Pages 15 - 58)**  
For Members to receive and review the revised Asset Allocation Strategy.

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### LONDON BOROUGH OF CROYDON PENSION FUND

#### KNOWLEDGE AND SKILLS / TRAINING POLICY

##### Introduction

This is the Knowledge and Skills / Training Policy (Policy) of the London Borough of Croydon Pension Fund (Fund) which is managed and administered by the Council. The Policy details the training strategy for members of the Pension Committee, the Pension Board and officers involved in the management of the Fund.

The Council has delegated responsibility for the implementation of this Policy to the Director of Finance, Investment and Risk (Section 151).

Following the introduction of Markets in Financial Instruments Directive (MiFID II) legislation in January 2018, financial institutions can no longer categorise a local authority as a “per se professional client”. Instead, a local authority must be classified as a “retail client” *unless* opted up by the financial institutions to “elective professional client” status. To attain professional status a Fund, as a collective, must be able to demonstrate sufficient expertise, experience and knowledge to satisfy financial institutions that it is capable of making investment decisions and understanding the nature of potential risks. This Policy assists the Fund in ensuring that levels of expertise, experience and knowledge are maintained to satisfy the MiFID II requirements.

##### Aims and objectives

The Fund’s “governance” objectives are set out in its Governance Policy Statement and prominent amongst them is that:

- All officers and Pension Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

All members and officers to whom this Policy applies are expected continually to demonstrate their personal commitment to training and to ensuring that the knowledge and skills objective is met.

To assist in achieving the objective the Fund will aim to comply with:

- CIPFA Knowledge and Skills Frameworks;
- Knowledge and skills requirements of the Public Service Pensions Act 2013; and The Pensions Regulator’s (TPR) Code of Practice for Public Service Schemes.

##### CIPFA and TPR Knowledge and Skills Requirements

In January 2010 CIPFA launched technical guidance for Representatives on Pensions Committees and non-executives in the public sector contained in a knowledge and skills

framework. The Framework detailed the knowledge and skills required by those responsible for pension scheme financial management and decision making in the public sector.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills framework. The new Framework details the knowledge and skills required by Pension Board members to enable them properly to exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013. This guidance increases the emphasis on Pensions legislation and governance and highlights Pensions Administration as a new and separate area of knowledge and skills.

The Framework covers eight areas of knowledge and skills identified as the core requirements:

- pensions legislation;
- pensions governance;
- pension accounting and auditing standards;
- pensions administration;
- pension services procurement and relationship management;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practice.

The two primary roles of the Framework are:

- To enable the organisation to determine whether they have an adequate skills mix to meet their financial needs; and
- To allow individuals to assess their training needs, measure their progress and plan their development

In 2016 CIPFA issued Investment Pooling Governance Principles for LGPS Administering Authorities, incorporating competencies relating to pooling in the LGPS. As regards training the key 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; and
- Ensure that they rely appropriately on officers and advisers to provide expert knowledge

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme (LGPS) administering authorities:

- Formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme);
- Ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme); and
- Publicly report how these arrangements have been put into practice each year.

### **The Pensions Act 2004 and the Pensions Regulator's Code of Practice**

Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to be conversant with the rules of the LGPS and any document recording policy about the administration of the LGPS; and have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the LGPS Local Pension Board.

These requirements have been incorporated and expanded on within The Pensions Regulator's Code of Practice 14 *Governance and administration of public service pension schemes*, effective from April 2015. Guidance has been issued by the Local Government Pension Scheme Advisory Board which details how these requirements relate to LGPS administering authorities. A Knowledge and Skills requirements document has been produced to meet these requirements (**Annex A**).

### **The Pensions Regulator's Code of Practice 14: Governance and Administration of Public Service Pension Schemes**

This Code details the documents that pension board members need to be conversant with.

In paragraphs 42 to 44 the Code states:

*For pension board members of funded pension schemes, documents which record policy about the administration of the scheme will include those relating to funding and investment matters. For example, where relevant they must be conversant with the statement of investment principles and the funding strategy statement. Pension board members must also be conversant with any other documented policies relating to the administration of the scheme. For example, where applicable, they must be conversant with policies relating to:*

- *the contribution rate or amount (or the range/variability where there is no one single rate or amount) payable by employers participating in the scheme;*
- *statements of assurance (for example, assurance reports from administrators);*
- *third party contracts and service level agreements;*
- *stewardship reports from outsourced service providers (for example, those performing outsourced activities such as scheme administration), including about compliance issues scheme annual reports and accounts;*
- *accounting requirements relevant to the scheme;*
- *audit reports, including from outsourced service providers; and*
- *other scheme-specific governance documents.*

## **CIPFA Principles of Investment Decision Making and Disclosure**

In response to the Government's report updating the Myners Principles, LGPS Administering Authorities are required to prepare and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are included in the Investment Strategy Statement. The six principles are:

- Effective decision making
- Clear objectives
- Risk and liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

## **Measuring and Monitoring Requirements**

### **Evaluation**

On appointment, and annually thereafter, Pension Board and Pension Committee members will be asked to complete a competency self-assessment matrix. This will highlight skills gaps or areas for further development. The results of this will be used to inform the development of the training plan.

Training programmes will be flexible, allowing Board and Committee members to update particular areas of learning where required and acquire new areas of knowledge in the event of any changes or developments.

Members need to commit sufficient time to complete their learning needs.

A report will be presented to the Pension Committee on an annual basis setting out:

- The training provided/attended in the previous year at an individual level;
- Commentary on how this compares to the Training Plan; and
- Any actions required, such as a review of the Training Plan.

This information will also be included in the Fund's Annual Report and Accounts.

Pension Committee members and Pension Board members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as an annual summary of the events attended.

Training will be a standing item on all Board and Committee meeting agendas.

In order to identify whether the objectives of this Policy are being met, the Administering Authority will maintain a training log which records attendance at training and compares this to the Training Plan.

### **Delivery**

Training and developments support will be delivered through a variety of methods including:

- The Pensions Regulator's on-line toolkit;
- Free subscription to The Pensions Regulator's news by email service;

- Pension Committee and Board training items at meetings;
- Specific training sessions either internally developed or shared with other funds;
- Fund manager training;
- Investment Advisor and Actuary training;
- London CIV training;
- On-line facilities;
- Reading materials; and
- Personalised training.

Where appropriate, training will be provided jointly for the Board, Committee and officers.

### **Initial information and induction process**

On joining the Pension Committee, the Pension Board or on appointment as a senior officer, individuals will be provided with the following Fund documentation:

- Members guide to the LGPS;
- Latest Actuarial Valuation report;
- Annual Report and Accounts;
- Funding Strategy Statement;
- Governance Policy and Compliance Statement;
- Investment Strategy Statement including the Fund's statement of compliance with the Myners Principles;
- Communications Policy;
- Discretionary Policies; and
- This Training Policy;

Induction training will be arranged on appointment.

### **Demonstrating knowledge and understanding**

The Council will maintain records of the learning of individual Board and Committee members and the Board and Committee as a whole. This will assist members in demonstrating their compliance with their legal requirements and how risks associated with knowledge gaps have been mitigated. The training log for 2018/19 is published with the Fund's Annual Report.

### **Costs**

Any cost involved in providing training will be met directly by the Fund.

### **Key Risks**

#### **Nature of the Risks**

The key risks to the delivery of this Policy are outlined below. The Pension Committee members, with the assistance of the Pension Board and senior officers, will monitor these and other key risks and consider how to respond to them.

- Changes in Pension Committee and/or Pension Board membership and/or senior officers potentially diminishing knowledge and understanding;

- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members and/or other senior officers resulting in a poor standard of decision making and/or monitoring;
- Insufficient resources being available to deliver or arrange the required training; and
- The quality of advice or training provided not being of an acceptable standard

### **How the Risks will be Measured / Monitored**

The Risk Register has been adopted by the Pension Committee and Pension Board and will be reviewed at alternate meetings of each.

### **Consultation**

A Governance review was carried out by Aon Hewitt and a report making recommendations was published on 30 May 2019. An action plan was approved by the Pension Committee on 11 February 2020, together with a recommendation to review progress on delivery of the plan in 12 months. This Policy addresses the recommendations made in the Review as follows:

- To introduce a policy covering the Pension Board, The Pension Committee and senior officers.
- Have regard to the work with the London CIV
- Be supported by training with reference to the CIPFA guidance
- Should include a list of documents that the Board, Committee and senior officers should conversant with. **(Annex A)**
- Link with training needs assessment and monitoring; all members and senior officers should complete the TPR toolkit.
- Implement a training plan and annual assessment
- Introduce Induction training
- Consider further training opportunities including external events
- Maintaining an up to date training log

### **Approval, Review and Effective Date**

The updated Pension Board Training Policy was approved by the Board at their meeting of 17 October 2019. This document will incorporate the CIPFA Local Pension Boards Framework and encompass the Pension Committee and senior officers.

This Policy will be formally reviewed and updated every three years or sooner if the training arrangements or other matters included within it merit reconsideration.

It will be considered at the Pension Committee meeting of 17 March 2020 and the Pension Board meeting of 2 April 2020.

### **Roles and Responsibilities**

The Council has delegated responsibility for the implementation of this policy to the Director of Finance, Investment and Risk (Section 151).



The Implementation, assessment and management of the Training Plan will be carried out by the Governance and Compliance Manager, reporting to the Head of Pensions and Treasury.

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<b>REPORT TO:</b>	<b>PENSION COMMITTEE</b> <b>17 March 2020</b>
<b>SUBJECT:</b>	<b>Review of the Asset Allocation Strategy</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook, Head of Pensions and Treasury</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
Sound Financial Management: Reviewing and ensuring that the asset allocation strategy for the Council's Pension Fund investments is in line with the assumptions made by the Actuary.	
<b>FINANCIAL SUMMARY:</b> This report proposes an asset allocation strategy for the Pension Fund.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

<p><b>1. RECOMMENDATIONS</b></p> <p>1.1 The Committee is asked to approve the asset allocation strategy as set out in paragraph 3.4.</p>
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**2. EXECUTIVE SUMMARY**

2.1 This report presents Members with a proposed asset allocation. Members are invited to comment on the appropriateness of this proposal.

**3. DETAIL**

3.1 This report draws together the threads of the discussions around the review of the Strategy for the Fund into a set of draft recommendation by the Fund's independent investment advisors (Minutes 50/19 and 58/19 refer). The decision to set an asset allocation strategy is a complex issue and a number of factors need to be considered in coming to a view as to what needs to happen. Principal amongst these factors are those related to the aggregate target rate of return for the Fund, the level of risk inherent in the revised structure, practical matters relating to transition management and forecasting cash flows. Mercer, as the Fund's independent investment advisors, have been asked to produce an

analysis of the proposal and this is set out below. Members are invited to refer to Mercer's analysis to inform their considerations.

3.2 The actuarial valuation effective 31 March 2019 has established a target rate of return for the Pension Fund of 4%. The Asset Allocation Strategy proposes an allocation by broad asset class. This is as follows:

Equities	40%	+/- 5%
Fixed Interest	20%	+/- 5%
Alternates	39%	+/- 5%
Cash	1%	

3.3 The variance is necessary to avoid the need to constantly re-balance the portfolio in response to market movements. The proposed strategy (see table in 3.4) breaks the alternates down to a more granular level. These allocations are meant as indicative and it needs to be recognised that certain investments will not fit into a distinct category.

3.4 The table below shows the current strategy, actual allocation and the proposed Strategy.

	<b>Current Strategy</b>	<b>Actual Allocation as at 31 December 2019</b>	<b>Proposed Strategy</b>
<b>Equities</b>	<b>42%</b>	<b>38.7%</b>	<b>40% +/-5%</b>
<b>Fixed Interest</b>	<b>23%</b>	<b>22%</b>	<b>20% +/-5%</b>
<b>Alternates Comprised of:</b>	<b>34%</b>	<b>21%</b>	<b>39% +/-5%</b>
<i>Private Equity</i>	<i>8%</i>	<i>8.4%</i>	<i>8% +/-5%</i>
<i>Infrastructure</i>	<i>10%</i>	<i>11.7%</i>	<i>15% +/-5%</i>
<i>Traditional Property</i>	<i>10%</i>	<i>9.4%</i>	<i>10% +/-5%</i>
<i>PRS</i>	<i>6%</i>	<i>4.6%</i>	<i>6% +/-5%</i>
<b>Cash</b>	<b>1%</b>	<b>5.3%</b>	<b>1%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

3.5 Members of the Committee are invited to consider these allocations in the light of Mercer's commentary and comment as they feel appropriate. This commentary is contained in the Investment Strategy Review in Part B of the agenda.

#### 4. FINANCIAL CONSIDERATIONS

4.1 There is always a risk that a particular allocation option does not prove to represent the most efficient mix of assets and the Committee will want to consider this as part of their discussion.

**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 Director of Law and Governance comments that the recommendation set out in this report is within the powers of the Pension Committee as set out in Part 3 of the Council's constitution.

**(Approved by:** Sean Murphy, Director of Law and Governance and Deputy Monitoring Officer)

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

**APPENDIX:** Appendix A is contained in Part B of this Agenda:  
Investment Strategy Review, March 2020

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