

Pension Committee Agenda



To: Councillor Humayun Kabir (Chair)
Councillor Simon Hall (Vice-Chair)
Councillors Simon Brew, Robert Canning, Luke Clancy, Clive Fraser,
Patricia Hay-Justice and Yvette Hopley

Co-opted Members: Ms Gilli Driver, Mr Peter Howard and Charles Quaye

Reserve Members: Pat Clouder, Nina Degrads, Steve Hollands,
Karen Jewitt, Vidhi Mohan, Caragh Skipper, Robert Ward and
Callton Young

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 15 September 2020** at **10.00 am**. This meeting will be held remotely. Members of the Committee will be sent a link to remotely attend the meeting in due course.

PLEASE NOTE: Members of the public are welcome to remotely attend this meeting via the following web link: <http://webcasting.croydon.gov.uk/meetings/10575>

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www.croydon.gov.uk/meetings
Monday, 7 September 2020

The meeting will be paperless. The agenda papers for all Council meetings are available on the Council website www.croydon.gov.uk/meetings

If you require any assistance, please contact the person detailed above, on the righthand side.

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 meeting held on 17 March 2020 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. Progress Report for the Quarter ending 30 June 2020 (Part A) (Pages 11 - 20)

This report provides an update on the performance of the Croydon Council Local Government Pension Scheme Fund to the end of quarter 1 (to the end of June 2020).

6. Key Performance Indicators for the Period Ended 31 July 2020

This report sets out the Key Performance Indicators for the administration of the Croydon Council Local Government Pension Scheme for the period from 1 May to 31 July 2020.

Report to follow.

- 7. Pension Fund Annual Report 2019/20 (Pages 21 - 24)**
For Members to note the process for production and acceptance of the Annual Report for the Croydon Council Local Government Pension Scheme Fund for 2019/20.
- 8. Pension Fund Business Plan (Pages 25 - 42)**
For Members to comment on and agree the recommended Business Plan.
- 9. Pension Committee Forward Plan (Pages 43 - 46)**
This report proposes a revised plan for the remainder of 2020/21.
- 10. Risk Register review (Pages 47 - 56)**
For Members to consider all risks assessed at amber and above.
- 11. Reporting breaches of the law (Pages 57 - 80)**
For Members to agree revisions to the Fund's Reporting Breaches of the Law Policy and to note the Fund's Breaches of the Law log.
- 12. 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

- 13. Progress Report for the Quarter ending 30 June 2020 (Part B)**
(Pages 81 - 156)
This report provides an update (Part B) on the performance of the Croydon Council Local Government Pension Scheme Fund to the end of quarter 1 (to the end of June 2020).

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Pension Committee

Meeting of Pension Committee held on Tuesday, 17 March 2020 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Andrew Pelling (Chair);
Councillor Simon Hall (Vice-Chair);
Councillors Simon Brew, Robert Canning, Clive Fraser, Patricia Hay-Justice and Yvette Hopley

Co-opted Member: Mr Peter Howard

Also Present: Nigel Cook (Head of Pensions)
Matthew Hallett (Investment Manager)

Apologies: Councillor Luke Clancy and Gilli Driver (Co-copted Member)

PART A

The minutes of the meeting are presented in the structure of the agenda as published despite the order of items being varied at the meeting in accordance with the Chair's wishes.

19/20 Minutes of the Previous Meeting

The minutes of the meeting held on 11 February 2020 were agreed as an accurate record.

20/20 Disclosure of Interests

Co-opted Member and Pensioner Representative, Peter Howard declared that he was in receipt of a pension from the Fund.

21/20 Urgent Business (if any)

In order to take an item of urgent business in Part B (a presentation on an investment fund offered by the London CIV), the following motion was moved by Councillor Pelling and seconded by Councillor Hall to exclude the press and public:

"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."

22/20 Progress Report for Quarter 3 (to the end of December 2019)

The item was introduced by the Head of Pensions and Treasury. It was noted that the report covered the quarter to the end of December 2019 and felt historic as a result of the adjustment that had occurred in the market since this time. The Fund was described as a long-term investor and having recovered well from the financial crisis in 2008. It was thought that the same would happen in response to the market adjustment that was in progress.

It was highlighted that there was benefit arising from 5% of the Fund being held in cash and the decision taken 18 months previously to reduce the Fund's equity exposure in preference for investment in the bond market.

The Chair requested more information be provided on the performance of Bond funds specifically Aberdeen Standard Life and Pimco.

It was established that the constant review of Currency Foreign Exchange was achieved through regular updates provided by Mercer UK with more information to be sought.

RESOLVED: The Committee AGREED to note the report.

23/20 Key Performance Indicators for the Period Ended 31 December 2019

The item was introduced by the Head of HR and Finance Service Centre. It was noted that this was the first time that it had been possible to present the Committee with data for the whole of the quarter. This showed that performance was good for the priority areas of retirement and the payment of death benefits. Recruitment was continuing to fill junior posts which meant resourcing for processing was not at capacity. The tendering process was continuing to outsource the clearance of the backlog; three bids had been received and were awaiting evaluation.

Member questions covered the following areas: the timeframe for clearing the backlog of cases; business continuity should working from home become necessary in the light of COVID-19; the number of agency workers in the administration team; the definition of a legal deadline and the action to be taken where this might be breached. The rate of completion of new cases during the peak in notifications experienced during December 2019 was also explored. This had resulted from the implementation of a new payroll system.

RESOLVED: The Committee AGREED to note the report.

24/20 Funding Strategy Statement

The item was introduced by the Head of Pensions and Treasury. It was noted that the Committee had seen the Funding Strategy Statement in a draft format during its briefing from the scheme actuary at its meeting in February 2020. Since this time, the other scheme employers had been consulted on its

contents. There was disappointment expressed that so few employers had participated in this process. However, this process was now complete and the Funding Strategy Statement presented would be in place until the 2022 triennial evaluation took place.

Members asked questions about how the engagement of other employers might be improved with a focus on academies and third-party contractors.

RESOLVED: The Committee NOTED the outcome of the consultation with other employers and AGREED the adoption of the Funding Strategy Statement.

25/20 Risk Management Policy

It was noted that this policy had come through the governance review process and was being presented for re-adoption. It was introduced by the Head of Pensions and Treasury, who explained it was last reviewed and adopted in December 2017. It had been subsequently reviewed by officers, judged acceptable and therefore was being brought forward for re-adoption. Reassurance was provided that it had been fully scrutinised and assessed to still be suitable.

RESOLVED: The Committee AGREED to re-adopt the Risk Management Policy.

26/20 Knowledge and Skills Policy

The item was introduced by the Head of Pensions and Treasury. It was explained that whilst there were detailed expectations for Pension Board members, this was not the case for Pension Committee members. It was explained that the Secretary of State, through the Scheme Advisory Board, had noted this discrepancy and was seeking for this to be addressed. The Knowledge and Skills Policy had been drafted based on the framework provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). It was suggested that once the policy was adopted the Committee could identify training needs to be addressed.

The Committee discussed how the policy was going to be implemented and tracked. It was acknowledged that participation in training by Members was recorded and featured in the Annual Report shared with Secretary of State. The option of online training was highlighted. Training for regulation, benefits and administration was noted as available with other investment training being available including from CIPFA.

Through their questions, Members established that there was more to do in terms of training for Reserve Members. There was discussion about the best providers of suitable training with the Local Government Association specifically mentioned. The knowledge Members were expected to have was described as extensive.

RESOLVED: The Committee AGREED the Knowledge and Skills Policy and adopted the CIFPA Knowledge and Skills Framework.

27/20 Revisions to the Asset Allocation Strategy

Councillor Hall moved the recommendation as stated in the amended officer's report, the Fund's median percentage asset allocation to be set at 40 % Equities, 20 % Fixed Income and 40 % Alternatives. Additionally, Councillor Hall moved the recommendation for £55 million, being equivalent to the sum previously earmarked for investment in the London CIV Emerging Market Fund, to be invested in the London CIV Sustainable Equity Exclusion Fund with the timing to be determined by officers with advice from Mercer UK and that over time the Fund's equity investments shall be moved into the London CIV Sustainable Equity Exclusion Fund.

Both recommendations were seconded by Councillor Pelling.

Officers pointed out that they were not able to give investment advice and the Pension Fund's investment adviser had not been given the opportunity to offer appropriate advice to inform the decision.

All Members agreed the recommendation save for Councillor Hopley who asked that her reservation about all equity investments being placed within the London CIV Sustainable Equity Exclusion Fund be recorded.

RESOLVED: The Committee AGREED the amended recommendation in the officer's report to approve the asset allocation strategy such that the Fund's median percentage asset allocation be set at 40 % Equities, 20 % Fixed Income and 40 % Alternatives. Additionally, the Committee AGREED to move £55 million of the Fund's Equity Investment to the London CIV Sustainable Equity Exclusion Fund with the timing to be determined by officers with advice from Mercer UK and that over time the Fund's equity investments shall be moved into the London CIV Sustainable Equity Exclusion Fund.

28/20 Exclusion of the Press and Public

The following motion was moved by Councillor Pelling and seconded by Councillor Howard to exclude the press and public:

"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."

The motion was put and it was agreed by the Committee to exclude the press and public for the remainder of the meeting.

The meeting adjourned briefly at 11:39am and reconvened at 11:47am.

..... **29/20 Progress Report (Part B) for Quarter 3 (to the end of December 2019)**

The meeting adjourned briefly at 12:17pm to allow the Committee time to consider the report. The meeting reconvened at 12:27pm.

The Committee considered the report of the Head of Pensions and Treasury that detailed the commercially sensitive context of the performance of the Pension Fund over the quarter to the end of December 2019.

RESOLVED: The Committee AGREED to note the report.

30/20 Revisions to the Asset Allocation Strategy (Part B)

The Committee considered the commercially sensitive report provided by Mercer UK regarding the Investment Strategy Review.

The meeting ended at 12.30 pm

Signed:

Date:

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Croydon Council

REPORT TO:	PENSION COMMITTEE 15 September 2020
SUBJECT:	Progress Report for Quarter Ended 30 June 2020
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:	
<p>Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.</p>	
FINANCIAL SUMMARY:	
<p>This report shows that the market value of the Pension Fund (the Fund) investments as at 31 June 2020 was £1,354.4m compared to £1,347.2m at 31 December 2019, an increase of £7.2m and a return of 1.0% over the half year. The performance figures, Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor Mercer.</p>	

1	RECOMMENDATIONS
1.1	The Committee is asked to note the performance of the fund for the half year to 30 June 2020.

2 EXECUTIVE SUMMARY

- 2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the half year to 30 June 2020. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied, specifically current and planned investments. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report.

3 DETAIL

Section 1: Performance

- 3.1 The 2019 Triennial Actuarial Valuation has now been completed showing a whole of fund funding position of 88% using a future investment return assumption (otherwise described as the discount rate) of 4.0% p.a. The Fund would be 100% funded if an assumed investment return of 4.8% p.a. is used. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and on the basis that other assumptions remain constant, the funding gap will close.
- 3.2 For the 18 month period since the valuation date the Fund has returned 8.3% against an assumed return of 6.1% from the valuation. This has had a positive impact on the funding level and to date shows the resilience of the Fund despite the negativity brought about by the COVID-19 pandemic. No one can be certain what the future will bring, but we remain confident that the diverse nature of the Fund puts it in as good a position as any to deal with what lies ahead.
- 3.3 Details of the performance of individual components of the portfolio are detailed in the report produced by the Fund's investment advisors which is in Appendix A of the Part B report.

Section 2: Asset Allocation Strategy

- 3.4 The current asset allocation strategy was approved at the Committee meeting held on 17 March 2020 (Minute 24/20 refers). The portfolio now reflects the proportions described in that strategy, allowing for the vagaries of the market.

3.5 The target portfolio can be broken down as follows:

Asset Class	Target Allocation	Allowable Tolerance
Equities including allocation to emerging markets.	40%	+/- 5%
Fixed interest	20%	+/- 5%
Alternates	40%	+/- 5%
<i>Comprised of:</i>		
Private Equity	10%	
Infrastructure	14%	
Property (Commercial & Residential)	16%	
Cash		
Total	100%	

3.6 Monitoring of asset allocation

3.6.1 **Global Equity** – During the quarter to 31 March 2020, our Global Equity portfolio returned -18.2% (negative) as the COVID-19 impact hit the Global markets. On 16 April 2020 the Fund invested £55m in the LCIV Sustainable Equity Exclusion Fund as directed by the Pensions Committee on 17 March 2020. The mandate which is managed by RBC Global Asset Management (UK) Limited (RBC) has strong ESG credentials and has outperformed the benchmark index over multiple time horizons dating back to its inception in 2006. The RBC mandate has gained 15.5% against a benchmark of 13.3% since the date the Fund made the investment to 30 June 2020. For the quarter to 30 June 2020 Global equities returned 19.8% which mean the performance of the Global equity portfolio for the half year to 30 June 2020 was slightly down by -0.9%.

We continue to monitor the effectiveness of currency hedging strategy which was implemented in August 2019.

As at 30 June 2020 the Fund's allocation to Global Equities stood at 42.2% which is within the target range.

3.6.2 **Fixed Interest** – During the quarter to 31 March 2020 fixed interest returns among our three managers were mixed and overall recorded a negative return of -2.4%,(negative), however like Global Equities, the return for Fixed Interest investments bounced back in the quarter to 30 June 2020 recording a return of 5.5%; meaning the return for the half year was 3.0%. The allocation to this asset class at 30 June 2020 was 22.5%, which is within the target range.

3.6.3 **Infrastructure** – To date Covid-19 has had little operational impact on the performance of the Fund's Infrastructure assets. However, the majority of the Fund's Infrastructure assets are valued using a discounted cash flow methodology and Officers continue to monitor the Investment managers' assumptions used when valuing these assets. Covid-19 may have an impact on longer term assumptions such those used for power prices, interest rates and inflation rates. Changes to the assumptions could have a material impact on the valuations of these assets. During the half year to 30 June 2020 Infrastructure assets returned 2%. The Fund now has a 12.5% allocation to Infrastructure assets compared to the revised target allocation of 14%. Officers continue to look for opportunities with both our existing managers and potential new managers including the London CIV.

- 3.6.4 **Private Equity** – Private Equity showed a return of 6% over the half year to 30 June 2020. All the Fund's private equity investments are valued in either Euros or US Dollars and it should be noted that the positive returns have solely been as a result of currency movement, rather than the performance of the underlying assets. The private equity holdings are well diversified, but tend to be invested in small to medium sized businesses which tend to have been the most affected by the Covid-19 pandemic. The Fund's private equity portfolio has held up relatively well to date, but we remain cautious about the outlook. On the positive side this could present increased opportunity for further investment.
- 3.6.5 **Traditional Property** –Our Property portfolio has seen the biggest negative impact from Covid-19 so far and has the greatest uncertainty about the future outlook. The national lockdown has had a huge effect on the ability of businesses to trade and therefore rent collections and valuations. This has led to a -3.2% (negative) return for the half year to 30 June 2020. Our property managers have been working hard to minimize the impact of Covid-19 introducing rent reductions and deferrals to protect the long term viability of tenants struggling with cash flow. We expect there to be further volatility in the property sector over the next year as the impact of Covid-19 and the effects this may have on future behavior becomes better understood. The portfolio is slightly below the target asset allocation and we expect this to continue. Committee are reminded that property is a long term investment and Officers are continuing to monitor the situation for signs of more clarity on the future outlook.
- 3.6.6 **Private Rental Sector** – The Fund's total commitment of £60m is fully invested in the PRS mandate and the allocation is at 4.6% which is below the original target of 6%. PRS is another sector which is facing very challenging conditions caused by the Covid-19 pandemic. Rent collections have remained strong to date, however occupancy rates have come under pressure. The mandate continues to perform well compared to the peer group. Although the Fund is below its target allocation, we do not consider it appropriate to top up this part of the portfolio further at this time.
- 3.6.7 Members will be aware of the scheme to transfer property from the Council to the Pension Fund in lieu of contributions. Discussions are in train to establish the appropriate treatment for this transaction. This will be reflected in future progress reporting.

3.6.8 The tables below illustrates the movement in the Fund's valuation during the quarter to 31 March 2020 which is the accounting year end and the quarter to 30 June 2020 the quarter following the year end. It also shows the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 31 March 2020

	Valuation at 31/12/2019 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 31/03/2020 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					33.9%	42%
Legal & General FTSE4Good	227	-	80	307		
Legal & General FTSE World (Ex Tobacco)	520,681	-	94,722	425,959		
Fixed Interest					23.0%	23%
Standard Life	136,210	-	3,882	132,328		
Wellington	69,607	-	2,777	72,383		
LCIV Global Bond	89,971	-	5,867	84,104		
Infrastructure					13.3%	10%
Access	16,871	1,507	1,138	19,516		
Temporis	28,215	2,291	1,879	28,627		
Equitix	76,679	479	1,872	78,071		
Green Investment bank	24,079	707	1,071	22,302		
I Squared	11,696	5,742	1,180	18,619		
Private Equity					9.1%	8%
Knightsbridge	33,243	593	2,930	35,581		
Pantheon	61,667	3,129	2,361	60,899		
Access	13,549	639	1,031	13,157		
North Sea	4,155	674	0	4,829		
Property					9.9%	10%
Schroders	127,175	-	2,527	124,648		
Property PRS					4.9%	6%
M&G	61,672	-	267	61,939		
Cash					5.9%	1%
Cash	71,494	1,946.35	130	73,570		
Fund Total	1,347,190	7,891	98,241	1,256,840	100%	100%

Valuations are based on the bid price as reported by the Fund Managers. The valuations of the Infrastructure and Private Equity funds are at 31 March 2020.

London Borough of Croydon Pension Fund

Fund valuation and asset allocation for the quarter ending 30 June 2020

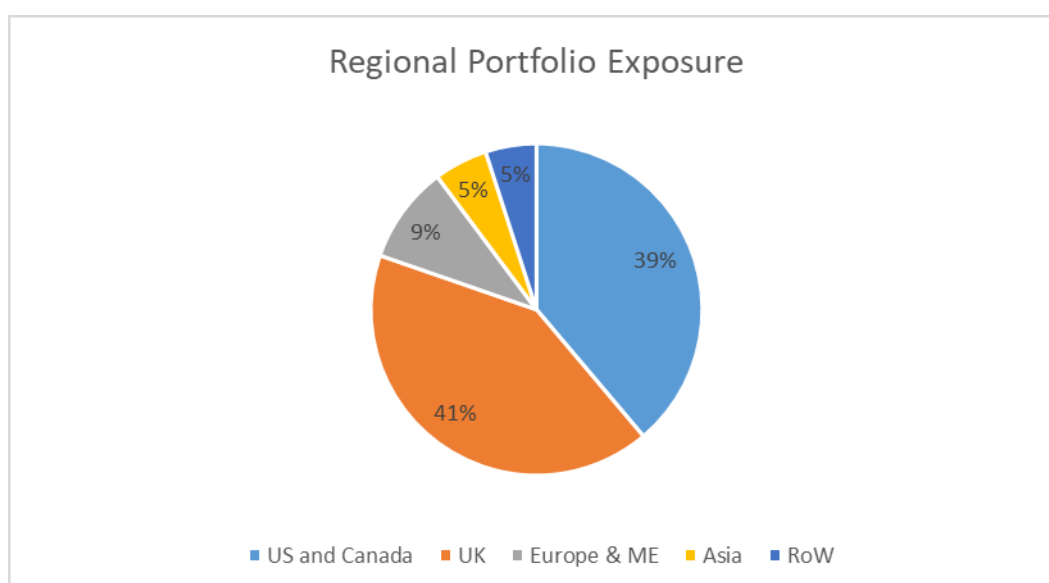
	Valuation at 01/04/2020 £'000	Net Cashflow £'000	Gain/Loss £'000	Valuation at 30/06/2020 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					42.2%	40%
Legal & General FTSE4Good	307	-	11	318		
Legal & General FTSE World (Ex Tobacco)	425,959	-	81,681	507,640		
LCIV RBC	-	55,000	8,191	63,191		
Fixed Interest					22.5%	20%
Standard Life	132,328	-	7,265	139,593		
Wellington	72,383	-	2,331	74,714		
LCIV Global Bond	84,104	-	6,303	90,407		
Infrastructure					12.5%	14%
Access	19,516	448	610	19,677		
Temporis	28,627	-	140	28,766		
Equitix	78,071	622	1,336	80,028		
Green Investment bank	22,302	520	192	21,589		
ISquared	18,619	-	214	18,833		
Private Equity					8.6%	10%
Knightsbridge	35,581	410	142	35,312		
Pantheon	60,899	936	476	60,439		
Access	13,157	-	1,673	14,831		
North Sea	4,829	727	132	5,688		
Property					9.1%	10%
Schroders	124,648	-	1,556	123,092		
Property PRS					4.6%	6%
M&G	61,939	-	47	61,987		
Cash					0.6%	0%
Cash	73,570	65,277.63	8	8,300		
Fund Total	1,256,839	11,244	108,810	1,354,406	100%	100%

Valuations are based on the bid price as reported by the Fund Managers. The valuations of the Infrastructure and Private Equity funds are the latest available and can be lagged by 3 months.

3.7 Regional Exposure

3.7.1 The geographical dispersion of the underlying assets comprising the portfolio is set out graphically in the chart below. This information is for illustrative purposes only. It should be noted that there are differences in the period represented as some data is updated far more frequently than others.

Graph 2: Geographic dispersion of funds.



3.7.2 The descriptor Asia includes Japan, Korea and Australia. The rest of the world (RoW) includes the continent of Africa and Latin America.

3.7.3 It should be noted that of the 41% invested in the UK 13.7% is allocated to Property and 10% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US and Canada.

Section 3: Risk Management

- 3.8 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. Dependent upon that are of course a number of issues.
- 3.9 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible. As an example, the portfolio has benefited from the impact of the Covid 19 pandemic, contrary to intuitive expectations.
- 3.10 It is probably too early to assess the long-term impact of the pandemic, setting aside the personal impact on a great number of people. Much ink has been spilled as to whether the markets will experience a 'V-shaped' or 'U-shaped' recovery and over what period. Many of these arguments were rehearsed during the 2008 Global Financial Crisis. The current portfolio was designed with diversity in mind to ensure that such events could be mitigated and to date we have not experienced the phenomenon whereby asset classes tended to all correlate. Stock markets have rallied vigorously and indeed both equities and fixed interest are over-weight in the portfolio. Infrastructure and Private Equity have been impacted because of the global reach of the economic impact of the crisis; property has been impacted the most. However, by and large the portfolio has performed as expected and returns have held up. No reactive measures are required.
- 3.11 Mercer, the Fund's investment advisor, have drafted two reports covering the recent period, one analysing performance and the other the state of the markets. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Visits

- 3.12 With the impact of the lockdown most meetings were virtual affairs, conducted by Teams, Zoom or the like. During 2020 officers have met with:

Access Capital Partners, April 2020, (Infrastructure, Buy Out);
The London CIV, April 2020;
Equitix, April 2020, (Energy Efficiency Fund AGM);
Access C P, April 2020 (Buy Out I Advisory Committee);
The London CIV, May 2020, (Renewables Seed Investor Group);
Equitix, May 2020;
Access C P, May 2020 (Infrastructure II and Buy Out Co-investment);
M&G Residential, May 2020;
London CIV, May 2020, (Business Update);
Wellington, June 2020;
Knightsbridge, June 2020, (Funds VII, VII and IX);
London CIV, June 2020, (Cost Transparency Workshop);

Equitix, June 2020, (Funds I, II, IV and V);
London CIV, June 2020, (Business Update);
Pantheon, June 2020, (Advisory Committee);
London CIV, June 2020, (Sustainable Exclusion Investment Fund);
Schroders, June 2020;
London CIV, July 2020, (Business Update);
London CIV, August 2020, (Funding Model Workshop).

In addition, the Chair and Vice-Chair met:

Knightsbridge, January 2020 (Funds VII, VIII and IX).

These meetings are critical in ensuring close management of the portfolio and in building strong business relationships.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6. LEGAL CONSIDERATIONS

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

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

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

Included in Part B of the agenda.
Quarterly reports from each fund manager (circulated under separate cover to the Committee Members.)

Appendices:

There are no part A appendices.

Part B appendices:

Pursuant to Schedule 12A paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information), the following appendices are considered to be precluded from publication:

Appendix A: London Borough of Croydon Returns to 30 June 2020, Mercer

Appendix B: Market Background and Market View Q1 & Q2 2020, Mercer

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Croydon Council

REPORT TO:	Pension Committee 15 September 2020
SUBJECT:	Pension Fund Annual Report 2019/2020
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 relates to the Croydon Pension Fund Annual Report. 2019/2020.	
FINANCIAL SUMMARY: There are no direct financial implications associated with this report although the Annual Report does incorporate the financial statements for the Pension Fund for the financial year 2019/2020.	

1. RECOMMENDATIONS

- 1.1 The Committee is invited to note the process by which the Croydon Council Pension Fund Annual Report 2019/2020 is produced.

2. EXECUTIVE SUMMARY

- 2.1 This report asks the Committee to note the process by which the Croydon Council Pension Fund Annual Report 2019/2020, incorporating the Pension Fund Financial Statements of the London Borough of Croydon Pension Fund and the Audit Findings Report will be completed.

3. DETAIL

- 3.1 In light of the extraordinary events of this year, the COVID 19 pandemic and subsequent disruption to public life, the established timetable for the production of the Croydon Council Pension Fund Annual Report 2019/2020, incorporating the Pension Fund Financial Statements of the London Borough of Croydon Pension Fund and the Audit Findings Report has had to be adapted.
- 3.2 The statement of accounts and audit findings report is to be considered by the General Purposes and Audit Committee (on 7 October 2020) as constituting those charged with governance under the regulatory framework. The report will

then be published by being posted on the Council's website at: <https://www.croydonpensionscheme.org/croydon-pension-fund/about-us/keeping-you-informed/>

- 3.3 Members of the Pension Committee will have an opportunity to comment on the Annual Report which will be circulated prior to the General Purposes and Audit Committee meeting.

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. LEGAL CONSIDERATIONS

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance and Deputy Monitoring Officer that the Pension Committee Role (see Terms of Reference in Constitution Part 4N for further information) includes:

1. To ensure that the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations ("the Regulations") all other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.
2. To adopt Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for compliance with all financial and regulatory requirements of the Fund.
3. To discharge its fiduciary responsibility in the best interest of the Fund, in particular:
 - a. To set the investment policy and review the performance of the Fund's investment managers, pooling operators, scheme administration, and external advisors;
 - b. To make arrangements for the triennial actuarial valuation;
 - c. To determine the Pension Administration Strategy;
 - d. To approve and monitor compliance of statutory statements and policies required under the Regulations;
 - e. To approve the Fund's Statements of Accounts and annual report;
 - f. To ensure that the Council discharges its obligation, as administering authority for the local government pension scheme, to other scheme employers;
 - g. To make representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme; and
 - h. To keep these terms of reference under review.

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

7. HUMAN RESOURCES CONSIDERATIONS

7.1 There are no direct workforce impacts arising from this report but the pension scheme is an important staff benefit for recruitment and retention.

Approved by: Sue Moorman, HR Director

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

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Croydon Council

REPORT TO:	Pension Committee 15 September 2020
SUBJECT:	Pension Fund Business Plan
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 recommends that the Pension Committee adopts a Business Plan for the management of the Fund.	
FINANCIAL SUMMARY:	
There are no direct financial implications associated with this report but it should assist in the efficient management of the Fund which could have an impact on the General Fund of the Council.	

1. RECOMMENDATION

- 1.1 The Committee are asked to comment on and agree to the recommended Business Plan.

2. EXECUTIVE SUMMARY

- 2.1 This report reminds the Committee of the arguments made by Aon Hewitt in their Governance Review for the Fund to adopt a Business Plan for the Fund and asks them to comment on and to agree the draft attached as Appendix A.

3. DETAIL

- 3.1. Over recent years the Committee have regularly considered a "Forward Plan" through which they have been invited to consider their proposed business over the subsequent months. However, they have not been asked to consider and adopt a more extensive Business Plan.
- 3.2 In their Governance Review of the Fund Aon Hewitt highlight guidance provided by The Pensions Regulator and CIPFA who recommend respectively:
- *Setting a clear purpose and strategy is essential to managing the Fund effectively*

- *A medium term business plan should be created for the pension fund*

They further quote from the Myners Principles 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.

- 3.3 Aon Hewitt also discuss the philosophy of a business plan and the key benefits from adopting one and recommend as follows:

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 forthcoming legislative changes),*
- *performance monitoring (e.g. the review of an area of a service that is failing to meet the agreed service standard),*
- *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).*

- 3.4 Through the agreed Action Plan the Fund has agreed to introduce a three-year rolling business plan incorporating the tasks listed above and including specific references to the London CIV and a Fund budget.

- 3.5 Attached as Appendix A is a draft Business Plan 2020-2023 on which the Committee are recommended to comment and agree subject to any amendments they wish to make.

4 FINANCIAL CONSIDERATIONS

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

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S. 151 Officer.

5. OTHER CONSIDERATIONS

- 5.1 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance and Deputy Monitoring Officer that the Pension Committee Role (see Terms of Reference in Constitution Part 4N for further information) includes:

1. To ensure that the Fund is properly operated in accordance with the Local Government Pensions Scheme Regulations (“the Regulations”) all other relevant legislation and best practice as advised by the Pensions Regulator, including financial, governance and administrative matters.
2. To adopt Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund’s solvency level. In addition, the Committee is responsible for compliance with all financial and regulatory requirements of the Fund.
3. To discharge its fiduciary responsibility in the best interest of the Fund, in particular:
 - a. To set the investment policy and review the performance of the Fund’s investment managers, pooling operators, scheme administration, and external advisors;
 - b. To make arrangements for the triennial actuarial valuation;
 - c. To determine the Pension Administration Strategy;
 - d. To approve and monitor compliance of statutory statements and policies required under the Regulations;
 - e. To approve the Fund’s Statements of Accounts and annual report;
 - f. To ensure that the Council discharges its obligation, as administering authority for the local government pension scheme, to other scheme employers;
 - g. To make representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme; and
 - h. To keep these terms of reference under review.

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

7. FREEDOM OF INFORMATION

- 7.1 This report contains only information that can be publicly disclosed.

8. DATA PROTECTION IMPLICATIONS

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

No.

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

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

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

9 HUMAN RESOURCES CONSIDERATIONS

9.1 There are no direct workforce impacts arising from this report but the pension scheme is an important staff benefit for recruitment and retention.

Approved by: Sue Moorman, HR Director

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury,
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

APPENDIX:

Appendix A: Croydon Pension Fund: Medium Term Business Plan 2020-2023

CROYDON PENSION FUND

Medium Term Business Plan 2020-2023

**Croydon Pension Fund
5A Bernard Weatherill House
8 Mint Walk
Croydon CRO 1EA**

CONTENTS

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2 PURPOSE OF THE BUSINESS PLAN

3 GOVERNANCE AND MANAGEMENT

4 AIMS, PURPOSES AND FUNDING OBJECTIVES

5 STATISTICS

6 REVIEW OF 2019/20

7 WORK PROGRAMME

8 INVESTMENTS

9 CASHFLOW

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11 TRAINING AND DEVELOPMENT

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1. INTRODUCTION

- 1.1 The London Borough of Croydon (the Council) is the Administering Authority of the Croydon Pension Fund (the Fund), responsible for the management of the Local Government Pension Scheme (the Scheme) in its area. The Fund is one of about ninety funds in the national Scheme offering benefits on a career average basis and funded by its constituent employers, members and investment income.

2. PURPOSE OF THE BUSINESS PLAN

- 2.1 Although not specifically required under Scheme regulations, it is recommended in guidance and considered best practice to have a business plan setting out the future direction of the Fund.
- 2.2 The Business Plan sets out the aims and objectives of the Fund and provides an overview of its key activities over the medium term. It includes a review of important developments during 2019/2020, the work plan of the Committee, the Board and officers for 2020/2021 to 2022/2023 and the planned training activity as set out in the Fund training plan. It also includes the draft financial position over the three years up to 2022/2023.
- 2.3 The Plan is reviewed and updated annually.

3. GOVERNANCE AND MANAGEMENT

- 3.1 The Council has delegated responsibility for the governance and management of the Fund to the Pension Committee and the S151 Officer. In the Council's Constitution the Purpose of the Committee is defined as:

to discharge the responsibilities for Croydon Council in its role as lead authority for the administration of the Croydon Pension Fund

- 3.2 The Committee receives appropriate advice from the S151 Officer, the Fund Actuary, its Investment Adviser and other officers and advisers as necessary.
- 3.3 Since 2015 a Local Pension Board has been in place the purpose of which, as laid down in Regulations, is

...to assist the Administering Authority in its role as a scheme manager of the Scheme. In particular to assist the Administering Authority to:

- 1. secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;*
- 2. to ensure the effective and efficient governance and administration of the Scheme.*

- 3.4 Under the “pooling” regulations the Fund, along with all other London borough funds, is a member of the London Collective Investment Vehicle (CIV). Over the next few years it will continue to seek opportunities to transfer investments to the CIV in order to achieve reductions in investment management costs. The Fund will continue to hold the CIV to account through its role as a shareholder.
- 3.5 At the request of the Pension Board, in 2015, the Fund commissioned a Governance Review from its independent Governance Adviser, Aon Hewitt Limited. During the spring and summer of 2016 the Board and Committee considered the Report and accepted the Adviser’s recommendations. The Board agreed an action plan to plot progress in their implementation. In 2019 Aon Hewitt were invited to carry out a further Review to assess progress against their earlier recommendations. The Review and associated action plan was considered by the Board and Committee during late 2019 and the early part of 2020 and the implementation of the recommendations plays a significant part in the workplan for 2020/21 and subsequent years.
- 3.6 Apart from payroll, all administration services are carried out in-house by Council staff.

4. AIMS, PURPOSES AND FUNDING OBJECTIVES

- 4.1 As set out in the Funding Strategy Statement agreed in March 2020:

The aims of the Fund are to balance:

- affordability of employer contributions;
- transparency of processes;
- stability of employers’ contributions; and
- prudence in the funding basis.

The purposes of the Fund are to:

- receive the proper amount of contributions from employees and employers, and any transfer payments;
- invest the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- use the assets to pay Fund benefits, to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The funding objectives are:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

5. STATISTICS

5.1 Key statistics as at 31 March 2019 were as follows:

- Assets of the Fund were £1,139m predominantly invested in equities, bonds, property, infrastructure and private equity;
- The Fund was 73% funded (based on 31 March 2016 data);
- The Fund had approximately 90 contributing employers;
- 9,811 members were contributing to the Fund;
- 10,936 former employees had their benefits deferred;
- 7,903 members were in receipt of a pension;
- Benefit payments in the previous year totalled £52.3m;
- Contributions from members in the previous year were £12.8m; and
- Contributions from employers in the previous year totalled £35.0m.

5.2 During 2019/2020 the Fund Actuary, as required by Regulations, has carried out a valuation of the Fund and reported that the funding level had increased to 88%.

6. REVIEW OF 2019/2020

6.1 All the normal routines were successfully completed including the timely publication of the Annual Report and Accounts, the regular monitoring of investment and administration performance, the distribution of annual benefit statements and the consideration of various policy statements and the Risk Register.

Specific projects included:

- Review of investment strategy
- Review of fixed income portfolio
- Review of infrastructure portfolios
- Disinvestment from emerging markets equities investment
- Brexit preparations
- Review of Investment Strategy Statement
- Consideration of “Investing in a time of Climate Crisis”
- Consideration of independent Governance Review
- Triennial valuation
- Review of Funding Strategy Statement
- Transfer of property assets

6.2 At the time of writing the impact of the Coronavirus crisis on the Fund is entirely unclear. It was discussed by the Committee at their meeting in March 2020 and will probably be the most significant item at all of their meetings during 2020/2021. Its financial impact will be seen in the Annual Report and Accounts for 2019/2020 and 2020/2021. The UK is in recession at time of writing and economic pressures impacting on the US and European economies continue to be of concern.

7. WORK PROGRAMME

7.1 The work programme for Members, officers and advisers envisaged over the next three years will be along the following lines.

	2020/21	2021/22	2022/23
Governance			
Review implementation of Governance Action Plan	Ongoing	Ongoing	Ongoing
Production of Fund Accounts	April to September	April to September	April to September
Production of Fund Annual Report	July to September	July to September	July to September
Production of Pension Board Annual Report	July to October	July to October	July to October
Review of Business Plan	March	March	March
Review of Governance Policy and Compliance Statement			January to March
Review of Communications Policy			September
Review of Administration Strategy	December		

Review of Internal Disputes Resolution Procedure			January to March
Review of Conflicts of Interest Policy			January to March
Review of Breaches of the Law Policy / Procedure	September		
Recording and reporting breaches of the law	Ongoing	Ongoing	Ongoing
Review of Administering Authority Discretionary Policy	December		
Review of Employer (admission/cessation/bulk transfer) Policy		June	
Review of Risk Management Policy and Strategy			March
Maintenance of Risk Register	Ongoing	Ongoing	Ongoing
Review of Knowledge and Skills/ Training Policy			January to March
Review and delivery of training programmes	Ongoing	Ongoing	Ongoing
Budget review including London CIV costs	March	March	March
Monitor performance of Investment Adviser against agreed strategic objectives	Ongoing	Ongoing	Ongoing
Response to legislative changes	As required	As required	As required
Response to reports of Scheme Advisory Board and The Pensions Regulator	Ongoing	Ongoing	Ongoing
Review staffing numbers and structure	Ongoing	Ongoing	Ongoing
Funding			
Triennial valuation consultations and calculations			May to December

Consultations and calculations for employers rates arising from triennial valuation			November to December
Triennial valuation certificate issued			March
Preparation of Funding Strategy Statement			November to March
Interim valuation		December	
Provision of actuarial valuation information for review by Government Actuary's Department	As required	As required	
Investments			
Review of Investment Strategy Statement	April		
Performance review reports to Pension Committee and Pension Board	Quarterly	Quarterly	Quarterly
Asset allocation review and investigation of new investment vehicles	Ongoing	Ongoing	Ongoing
Develop Environmental, Social and Governance investment policy	Ongoing	Ongoing	Ongoing
Meet investment managers in rotation	Ongoing	Ongoing	Ongoing
Compliance with "pooling" requirements	Ongoing	Ongoing	Ongoing
Review of savings achieved by CIV	July	July	July
Implementation of Cost Transparency Code	Ongoing	Ongoing	Ongoing
Administration			
Triennial valuation – consultation with and results to employers			May to February
Bulk transfers, academy conversions and new admitted bodies – provision of data for employers	Ongoing	Ongoing	Ongoing

FRS102 – provision of data for employers	July to September	July to September	July to September
Administer pension increase	January to March	January to March	January to March
Issue Annual Benefit Statement	May to August	May to August	May to August
Monitoring of Key Performance Indicators	Ongoing	Ongoing	Ongoing
Produce Data Improvement Plan	July to December		
Organise and facilitate Employers' Forum	Quarterly	Quarterly	Quarterly
Focus on information technology efficiencies	Ongoing	Ongoing	Ongoing
Review any service areas failing to meet agreed performance standards	As required	As required	As required
Clear backlog of deferred pensioners work	September to year end		
Organise voting for Pensioners' Representatives on Pension Committee	July to August		
Make appointments to fill any vacancies arising on Pension Board	As required	As required	As required
Re-procure Pensions Administration System	April to March		
Auto re-enrolment		January	
Roll-out of I-connect project	Ongoing		
Roll-out of new Member Self Service (SSF) facility	April		
Develop use of Employer Relationship Management software	Ongoing		
Publicise upgrade of Members Self Service	August		

- 7.2 Progress on relevant parts of the Programme will be regularly reported to meetings of the Committee and Board.
- 7.3 Programmes of work arising from the Business Plan specific to the Committee and the Board will be presented to the two bodies as an updated Forward Plan.

8. INVESTMENTS

8.1 As at the end of March 2020 the Fund had £1,184.9m assets under management by 14 different fund managers investing in equities, bonds, property, infrastructure and private equity.

8.2 The Fund's asset allocation is shown in the table below.

Fund Manager	Managed by CIV	Value at 31 March 2020	Actual Allocation	Strategic Allocation (Minute 27/20)
		£m	%	%
Equities				
LGIM	Counts towards allocation	426.0		
Total		426.0	36.0	40.0
Fixed Interest				
Aberdeen Standard		132.3		
Wellington		72.4		
PIMCO	Yes	84.1		
Total		288.8	24.4	20.0
Property				
Schroders		115.4		
M & G		61.9		
Total		177.3	14.9	16.0
Private Equity				
Pantheon		60.9		
Knightsbridge		35.6		
Access		13.2		
North Sea Capital		4.8		
Total		114.5	9.6	10.0
Infrastructure				
Equitix		78.1		
Temporis		28.7		
GIGM		22.3		
Access		19.5		
I Squared		18.6		
Total		167.2	14.2	14.0

Cash		11.1	0.9	0
TOTAL		1,184.9	100.0	100.0

9. CASHFLOW

9.1 The table below summarises the relatively predictable items of income and expenditure included in the Fund Annual Accounts. The data suggests that in the medium term the Fund's predictable income will comfortably exceed its expenditure. The large increase in the estimated surplus in 2020/2021 is due to a lump sum of £32.2m being received in 2016/17 in lieu of three annual payments of £11.8m in the subsequent three years.

	2018/19 Actual	2019/20 Actual	2020/21 Estimate	2021/22 Estimate
	£'000	£'000	£'000	£'000
Contributions receivable	47,808	52,208	61,000	62,000
Benefits payable	-43,431	-46,540	-47,000	-48,000
Management expenses*	-8,167	-11,425	-11,000	-11,000
Investment income	5,468	9,425	8,000	8,000
Net income (-)	1,678	3,668	11,000	11,000

*See table in paragraph 10.1 below

There are several items within the Fund Accounts which have a significant impact on the financial status of the Fund but which cannot be estimated with confidence. As an indication, these are detailed below for the years 2018/2019 and 2019/2020.

	2019/20 Actual	2018/19 Actual
	£'000	£'000
Individual transfers in from other funds	14,179	11,584
Individual transfers out to other funds	-10,769	-5,794
Commutations, refunds and lump sum retirement and death benefits	-10,310	-8,923
Changes in market value of investments	1,912	120,170

10. RESOURCES

Finance

10.1 The following table provides actuals and estimates of the Fund Management Expenses over the four years from 2018/2019.

	2018/19 Actual	2019/20 Actual	2020/21 Estimate	2021/22 Estimate
	£'000	£'000	£'000	£'000
Administration				
System fees	341	357	360	370
Staff costs	674	820	830	840
Payroll administration	68	499	500	500
Total	1,083	1,676	1,690	1,710
Oversight and Governance				
Staff costs	347	575	580	590
Actuarial costs (net)	99	238	100	100
External audit fees	21	25	25	25
Memberships	21	10	10	10
Investment and governance advice	183	147	150	150
Other (net)	3	46	40	40
Total	674	1,041	905	915
Investment Management				
Management fees	6,316	8,607	8,700	8,800
Custodian fees	94	101	100	100
Total	6,410	8,708	8,800	8,900
TOTAL	8,167	11,425	11,395	11,525

10.2 Many of these costs are linked to the size of the Fund and so will inevitably grow year on year. Some costs are cyclical, such as those relating to the triennial actuarial valuation.

Staff

10.3 The Fund has the following staffing resource available to deliver the Plan.

	FTE
Investment & Treasury	6
Governance & Compliance	3
Pensions Administration	15
Pensions Technical Support	2

10.5 In order to make the optimum contribution to the delivery and administration of Fund services staff have:

- A development plans and key objectives set on an annual basis, linked to outcomes and objectives set out in this Business Plan;

- Regular one-to-one meetings to review progress and to identify development issues; and
- Opportunities to put forward ideas and suggestions to help to shape the future development of the service.

11. TRAINING AND DEVELOPMENT

- 11.1 The CIPFA Knowledge and Skills Framework and a Knowledge and Skills / Training Policy have been adopted by Fund.
- 11.2 Members of both the Pension Committee and the Board and officers are given a range of opportunities to develop their skills in keeping with the Framework.
- 11.3 The Fund is a member of the CIPFA Pensions Network which gives officers access to an extensive programme of events, training, weekly newsletters and documentation including briefing notes on the latest topical issues. Officers attend quarterly forum meetings with peers from other London boroughs which provide further access to opportunities for knowledge sharing and benchmarking data.
- 11.4 Officers also attend seminars arranged by fund managers and other third parties who specialise in public sector pensions. Any relevant sessions are shared with the Committee and Board members.

12. KEY POLICY DOCUMENTS

- 12.1 Key policy documents which support the Business Plan and, in turn, are supported by it which can be found on the Fund's website include:
- Annual Report and Accounts
 - Triennial Valuation Report
 - Investment Strategy Statement
 - Funding Strategy Statement
 - Governance Policy and Compliance Statement
 - Communications Policy Statement
 - Administration Strategy
 - Risk Management Strategy and Risk Register
 - Knowledge and Skills Policy
 - Conflicts of Interest Policy

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Croydon Council

REPORT TO:	Pension Committee 15 September 2020
SUBJECT:	Pension Committee Forward Plan
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: Ensuring that the management of the Pension Fund is given appropriate guidance and direction through the governance of the Pension Committee.	
FINANCIAL SUMMARY:	
There are no direct financial implications associated with this report. However, the implications of decisions taken by the Committee for the Revenue Account of the Council can be significant.	

1. RECOMMENDATION

- 1.1 That the Committee consider and agree the Forward Plan for the remainder of 2020/2021.

2. EXECUTIVE SUMMARY

- 2.1 It is recommended best practice for the Committee to review the forward plan regularly. This report sets out a suggested work plan for the Committee for the remainder of 2020/2021, inviting suggestions for amendments or additions.

3. DETAIL

- 3.1 The Forward Plan below sets out an agenda for each meeting to be held by the Committee for the remainder of 2020/2021. However, further items may be added as required by senior officers in consultation with the Chair. The Plan takes into account the Action Plan arising from the Governance Review.

- 3.2 The Committee has committed to a programme of training and, in part, this can
PEN 15092020

be delivered by sessions preceding or following the business parts of the scheduled meetings. The content of the training will be informed by the direction of future legislation and regulations and the choice of investment vehicles. Members should note that this is in addition to the general members training. Members should be aware that the Government have consulted, through the LGPS Scheme Advisory Board (Scheme Advisory Board Good Governance Review, May 2019), about introducing greater compulsion around the training requirements for Pension Committees to bring them in line with Local Pension Boards. This requirement may necessitate a formalized approach that extends beyond the current arrangements.

3.3 Pension Committee 2020/2021 Forward Plan

Meeting 1

- Progress report quarter ending September 2020
- Update on Key Performance Indicators
- Issues raised by Scheme Advisory Board and/or The Pensions Regulator
- Progress on implementation of Governance Review Action Plan
- Update on the procurement of Pensions Administration System
- Report from Pension Board
- Training session lead by Mercer regarding changes to the Asset Allocation Strategy.

Meeting 2

- Risk Register Review
- Issues raised by Scheme Advisory Board and/or The Pensions Regulator
- Results of review of actuarial valuation information by Government Actuary's Department
- Review of Administration Strategy
- Review of Administering Authority Discretionary Policy
- Review of Breaches of the Law log
- Conflicts of Interests
- Training Records Update
- Report from Pension Board

Meeting 3

- Progress report quarter ending December 2020
- Key Performance Indicators
- Issues raised by Scheme Advisory Board and/or The Pensions Regulator
- Procurement of Pensions Administration System
- Progress on implementation of Governance Review Action Plan
- Budget review including CIV costs
- Business Plan
- Forward Plan Review
- ESG issues
- Report from Pension Board

4 FINANCIAL CONSIDERATIONS

4.1 There are no financial considerations arising from this report.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S. 151 Officer.

5. OTHER CONSIDERATIONS

5.1 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

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

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

7. FREEDOM OF INFORMATION

7.1 This report contains only information that can be publicly disclosed.

8 DATA PROTECTION IMPLICATIONS

8.1 Will the subject of the report involve the processing of 'personal data'?

No.

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

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

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

9. HUMAN RESOURCES CONSIDERATIONS

There are no direct workforce impacts arising from this report but the pension scheme is an important staff benefit for recruitment and retention.

Approved by: Sue Moorman, HR Director

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury,
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

Croydon Council

REPORT TO:	Pension Committee 15 September 2020
SUBJECT:	Review of 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.	

1. RECOMMENDATION

- 1.1 The Committee is asked to note the contents of the Pension Fund 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 covering the most significant risks faced by the Fund. This report presents the current register (Appendix A) for the Committee's consideration.

3. DETAIL

- 3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording relevant risk scenarios, together with an assessment of their likelihood and impact and appropriate mitigations. This report discusses the most significant risks relating to governance, funding, assets and liabilities and operational matters. Appendix A details these risks.

- 3.2 The Committee is invited to comment on whether it considers this list sufficiently exhaustive, whether the assessment of each risk matches its perception and on
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the adequacy of existing and future controls.

- 3.3 In accordance with the Risk Management Policy, the Risk Register is to be reviewed periodically and reported to the Committee on a quarterly basis. To fit with the “quarterly” requirements a report will be presented to most meetings of the Committee.
- 3.4 Risks are rated on a scale of 1 to 5 on the likelihood of the risk occurring and its impact if it does. This allows a range of potential scores of between 1 and 25. The register shows that there are 14 significant risks for the Fund (i.e. scored 12 or higher). The portion of the register that lists those risks which scored 12 or higher is attached as Appendix A to this report.
- 3.5 Since the Committee last reviewed the Register, two risks have been added in relation to cyber security, one in respect of the effects of Coronavirus and one dealing with the potential implications of the McCloud judgement.
- 3.6 The Committee is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

4 FINANCIAL CONSIDERATIONS

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

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S. 151 Officer.

5. OTHER CONSIDERATIONS

- 5.1 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

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

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

7. FREEDOM OF INFORMATION

- 7.1 This report contains only information that can be publicly disclosed.

8 DATA PROTECTION IMPLICATIONS

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

PEN 15092020

No.

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

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

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

9. HUMAN RESOURCES CONSIDERATIONS

9.1 There are no direct workforce impacts arising from this report but the pension scheme is an important staff benefit for recruitment and retention.

Approved by: Sue Moorman, HR Director

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury,
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

APPENDIX:

Appendix A: Pension Fund Risk Register

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Pensions Risk Register

Risk Scenario				Current Risk Rating			Future controls	Future risk rating		
Risk	Assigned to	Existing Controls	Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor	
Governance Risks										
1	If other scheme employers cease trading or operating 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	4	12	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk. The Government (MHCLG) have consulted on this issue and mitigations should reduce the potential impact of this risk.	3	3	9
Funding - Assets and Liabilities Risks										
2	The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 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. The current Strategy was agreed by the Committee on 17 March 2020.	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. When the current valuation is completed officers will work with the Actuary to seek a cost efficient way of more frequent monitoring.	4	2	8
3	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.	Pension Fund Investment Manager	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. This cash will be invested in liquid assets to mitigate this risk.	3	3	9	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.	3	2	6

4	There is a possible risk of scheduled or admitted bodies 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. There is one significant case, in terms of contributions due, which is currently being considered by the Pensions Ombudsman.	3	5	15	To mitigate the risk going forward measures have been put into place to set up processes and procedures around schedules (new templates with in-built checks have been issued to employers and a checklist has been created to record receipt) and reconciling figures on a monthly basis, checking payment has been received. It will be necessary to do retrospective checks to April 2020 so it is expected that this will take some time to complete with the current resources available. However, once the new measures have been embedded, payments can be chased where necessary quickly.	3	5	15
5	Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.	Head of Pensions and Treasury	The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years. The valuation states: For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.	4	3	12	The authority is revisiting the funding position and contribution levels during the current valuation. Initial draft results from the valuation are encouraging.	4	2	8
Investment Risks										
6	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 alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.	Pension Fund Investment Manager	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. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.	4	3	12	A new asset allocation strategy is currently being considered to take effect from 1 April 2020.	3	2	6
7	The London CIV has been experiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.	Head of Pensions and Treasury	The Fund retains the services of an external consultant to assess the efficacy of transitions. This is a backward-looking review and the Fund does not have visibility of the process when the transition is happening or when the Fund is out of the market. The fund can rely on its investment advisor to ensure ESG issues are adequately addressed. Fund launches will be carefully monitored.	4	3	12	The appointment of a new Chief Investment Officer is not likely to start until 2020/21 and until then the post will be filled by an interim.	4	3	12

Global Macro-economic Risks										
8	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.	Pension Fund Investment Manager	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.	4	3	12	A new asset allocation strategy is currently being considered to take effect from 1 April 2020. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.	4	3	12
9	There is still a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterious impact on the Fund.	Head of Pensions and Treasury	The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.	3	4	12	There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.	3	3	9
10	Coronavirus – risk to investment returns of the Pension Fund from a global financial crisis. The UK economy is in recession and European and US markets are fragile. If returns on the investment of the Pension Fund are negatively impacted long term there may not be adequate resources to meet the Fund's liabilities. This may lead to a need to increase employer contribution rates. This impacts on Council budgets.	Pension Fund Investment Manager	The situation is being monitored by the Investment Manager and the LCIV Investment Team. While a temporary drop was experienced the market has now recovered and no long-term adverse effect is expected.	3	4	12	The current monitoring arrangements are effective and will continue going forward.	3	4	12

11	<p>There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.</p>	<p>Pension Fund Investment Manager</p>	<p>Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.</p>	<p>4 3 12</p>	<p>The rebalancing has now been completed and the allocation strategy is being reviewed.</p>	<p>3 2 6</p>
Operational Risks						
12	<p>Cyber Security – Risk to systems including by system failure, ineffective business continuity plan and lack of adequate monitoring arrangements for third party suppliers. If adequate protections are not in place to prevent system failure working time could be affected impacting workloads and delivery of key performance indicators. If an effective business continuity plan is not in place and communicated to staff the impact of any system failure will be increased. If adequate monitor arrangements for suppliers are not implemented and reviewed service delivery may be adversely affected.</p>	<p>Head of Pensions Administration</p>	<p>Heywoods is a hosted system. They have processes in place for backing up files, storing data safely and preventing system failure. This is included in the contract we have with them. The technical team keep logs of issues and responses to monitor this. We have a business continuity plan in place should issues arise.</p>	<p>4 3 12</p>	<p>Communication of the business continuity plan to relevant staff could be considered</p>	<p>4 2 8</p>
13	<p>Cyber security - risk of unauthorised access to personal and other data including by unsafe home working practices, data access protection and levels and safe storage of data. If safe working practices are not followed devices could be lost or stolen or data could be viewed or tampered with. If data access levels are not kept up to date and set at a level appropriate for the performance of the duties of the role only, any possible misuse or error will have a more severe effect. If data held on the pension system is not backed up there is a risk of data being lost in the event of a system failure.</p>	<p>Pensions Administration Manager</p>	<p>Heywoods have systems in place for backing up data as specified in the Cloud Hosting Agreement 2016 (11). When working from home devices are encrypted and accessed via a VPN. Bit locker and passwords are required to access systems. No physical papers are taken home and staff are advised of the need to keep computers in a secure place, never to leave devices unattended and not to access systems in public locations. Data access levels are assigned by the Technical Team on appointment or change of role according to the requirements of the role.</p>	<p>4 3 12</p>	<p>Working from home arrangements could be strengthened by creating a policy and / or procedure.</p>	<p>4 2 8</p>

14	<p>McCloud Judgement. There is a risk affecting our ability to implement the requirements of the McCloud judgement post resolution. Issues include lack of historic data, appropriate resource, capacity or budget to undertake the work. This could result in legal breaches reportable to the Pensions Regulator, incorrect pension entitlements being calculated for pensioners and loss of confidence in the service by scheme members and employers.</p>	Pensions Manager	<p>Keeping up to date with information from the Scheme Advisory Board, Local Government Association, and the Government actuary's Department. The Technical Team are ensuring that part time hours are being recorded on Altair.</p>	<p>5 3 15</p>	<p>Maintain current monitoring arrangements until a resolution is announced.</p>	<p>5 3 15</p>
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Key

Below 10 is considered a Green Risk.

A score between 10 and 19 is an Amber Risk.

A score of 20 or above is a Red Risk.

Impact is measured on a scale of 1 to 5.

A score of 1 suggests that the potential impact would be insignificant and a score of 5 would be catastrophic.

Likelihood is also measured on a scale of 1 to 5.

In this instance a score of 1 suggests that the occurrence will be rare and score of 5 would be almost certain to happen.

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Croydon Council

REPORT TO:	Pension Committee 15 September 2020
SUBJECT:	Reporting Breaches of the Law
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 recommends that the Pension Committee agree revisions to the Fund's "Reporting Breaches of the Law Policy" and note the update of the Fund's Breaches of the Law log.	
FINANCIAL SUMMARY:	
There are no direct financial implications associated with this report but it should assist in the efficient management of the Fund which could have an impact on the General Fund of the Council.	

1. RECOMMENDATION

- 1.1 The Committee are asked to agree revisions to the Fund's "Reporting Breaches of the Law Policy" and to note the Fund's Breaches of the Law log.

2. EXECUTIVE SUMMARY

- 2.1 This report advises the Committee of the existing procedure for reporting breaches of the law in the administration of the Fund and asks them to agree revisions to the Policy attached as Appendix E and note the Log attached as Appendix F.

3. DETAIL

- 3.1. On 2 July 2015 the Pension Board considered a draft Policy entitled "Reporting Breaches of the Law" and resolved as follows:

Approve the Breaches of Law policy, subject to stronger wording being inserted at page 4 asserting the right of the Board to report breaches directly to the Pensions Regulator. Such wording to be approved by the Chair.

- 3.2 The revised Policy is attached as Appendix A. Appendices B, C and D detail the reporting process as follows:
- Appendix B Breaches Reporting Form – to be completed by anyone wishing to report a breach;
 - Appendix C Breaches Flowchart – the process of investigation; and
 - Appendix D Breaches Risk Process – how the seriousness of a breach is evaluated.
- 3.3 In their Governance Review of the Fund Aon Hewitt note that the current procedure “appears to be focussed on Local Pension Board members” and the agreed action arising from the Review is
- Review current Pension Board breaches procedure but, in doing so, expand to cover all of those involved with the management of the Fund (i.e. Committee and senior officers)*
- 3.4 A revised Policy is now presented to the Committee as Appendix E (with proposed changes in red).
- 3.5 The current procedure does not require that the Committee or Board be advised of a record of reported breaches but the action agreed arising from the Aon Hewitt Review is that the Fund “Introduce a system to record and monitor breaches and introduce reporting of these to Committee and Board via a clear and regular updates breaches log.”. The recommended new Policy includes such a process.
- 3.6 Attached as Appendix F is a log on which the Committee are invited to comment and to note.

4 FINANCIAL CONSIDERATIONS

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

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S. 151 Officer.

5. OTHER CONSIDERATIONS

- 5.1 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. LEGAL CONSIDERATIONS

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

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

7. FREEDOM OF INFORMATION

7.1 This report contains only information that can be publicly disclosed.

8 DATA PROTECTION IMPLICATIONS

8.1 Will the subject of the report involve the processing of 'personal data'?

No.

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

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

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

9.0 HUMAN RESOURCES CONSIDERATIONS

9.1 There are no direct workforce impacts arising from this report but the pension scheme is an important staff benefit for recruitment and retention.

Approved by: Sue Moorman, HR Director

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury,
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

APPENDIX:

Appendix A: Reporting Breaches of the Law
Appendix B: Breaches Reporting Form
Appendix C: Breaches Flowchart
Appendix D: Breaches Risk Process
Appendix E: Reporting Breaches of the Law (revised)
Appendix F: Breaches Log

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Reporting Breaches of the Law

This document should be read in conjunction with the Terms of Reference for the Local Pension Board of Croydon Council Pension Fund dated 2 July 2015. Unless stated otherwise, the defined terms used in this document have the same meaning as attributed to them under the Terms of Reference document.

Legal requirements

Certain people are required to report breaches of the law in writing to the Compliance and Governance Manager as soon as reasonably practicable and where they have reasonable cause to believe that:

- A legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with, e.g. keeping records/internal controls; and
- The failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

Those subject to the reporting requirements in the context of public service pension's schemes are as follows:

- A Scheme Manager
- Members of Local Pension Boards ("LPB's")
- Any person who is otherwise involved in the administration of a public service pension scheme
- Employers. In the case of a multiemployer scheme, any participating employer who becomes aware of a breach should consider their duty to report, regardless of whether the breach relates to, or affects members who are its employees or those of other employers
- Professional advisers including auditors, actuaries, legal advisers and fund managers.
- Any person who is otherwise involved in advising the scheme manager in relation to the scheme.

Implementing adequate procedures

Identifying and assessing a breach of law is important in reducing risk and providing an early warning of possible malpractice. Those people with a responsibility to report breaches, including Scheme Managers and LPB members (reporters) should establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations. Procedures should enable people to raise concerns and facilitate the objective consideration of those matters

Procedures will include the following features:

- Obtaining clarification of the law where it is not clear to those responsible for reporting
- Clarifying the facts around the suspected where they are not known
- Consideration of the material significance of the breach taking into account its cause, effect, the reaction to it, and its wider implications, including where appropriate, dialogue with the Scheme Manager or LPB
- The breach will be reported to the Governance and Compliance manager in the first instance, who will assess the cause, effect and the wider implications and determine if it is likely to be of material significance to the Pension Regulator and/or the Scheme Manager.
- A timeframe of 14 days for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable

Judging whether a breach must be reported

Breaches can occur in relation to a wide variety of the tasks normally associated with the administration function of the scheme such as keeping records, internal controls, calculating benefits, making investments, or investments related decisions.

Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated. Therefore, it is imperative that where a breach is suspected, reporters still refer the matter to the Compliance and Governance Manager so that investigations can be undertaken to establish whether or not a breach has in fact occurred and if the matter requires escalation to the Scheme Manager.

In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Scheme Manager or the Pension Regulator may require before taking legal action.

It is also important that a reporter is aware that any delay in reporting any potential breach may exacerbate or increase the risk of the breach causing further and more significant issues.

The cause of the breach

The breach is likely to be of material significance to the Scheme Manager or the Pension Regulator where it is for example, caused by (but not limited to):

- Dishonesty
- Poor governance, inadequate controls resulting in deficient administration, or slow or inappropriate decision-making practices
- Incomplete or inaccurate advice
- Acting (or failing to act) in deliberate contravention of the law

A breach will not normally be regarded as materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances.

The effect of the breach

Evidence in relation to any of the following matters is particularly important and likely to be of material significance to the Scheme Manager and the Pension Regulator:

- Local Pension Board members not having the appropriate degree of knowledge and understanding
- Local Pension Board members having a conflict of interest
- Adequate internal controls not being established and operated
- The right money/contributions not being paid to the scheme at the right time
- Internal Dispute Resolution Procedures (IDRP) not having been made and/or implemented
- Information about benefits and other information about scheme administration not being disclosed to scheme members and others
- Information about Local Pension Boards not being published
- The scheme not being administered properly
- Appropriate records not being maintained
- Local Pension Board members having misappropriated any assets of the scheme or being likely to do so
- Repeated miscalculations or incorrect payment of benefits which have a detrimental impact on scheme members

The reaction to the breach

Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the Pension Regulator will not normally deem it to be materially significant.

A breach is likely to be of concern and material significance to the Pension Regulator where a breach has been identified and those involved:

- Do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence.
- Are not pursuing corrective action to a proper conclusion or
- Fail to notify affected scheme members where it would have been appropriate to do so.

Submitting a report to the Scheme Manager

All reports of possible breaches must be submitted in writing to the Compliance and Governance Manager. However, if the matter is considered particularly serious by the reporter it can be preceded by a telephone call, and brought directly to the Scheme Manager's attention (if appropriate).

Reporting more serious concerns

Where sufficiently serious concerns exist or where a concern has been raised with the Pension Committee and the LPB consider that the Pension Committee have not taken appropriate action to rectify the issue it may be more appropriate for the LPB to report these directly, to the Pensions Regulator. Such concerns could include (but are not limited to) fundamental breaches of the Regulations or a fundamental failure by Croydon Council to ensure the effective governance of the fund.

In such situations reports should be made directly to the Governance and Compliance Manager who will then take the appropriate action and may refer the matter to the Pensions Regulator.

Reporting Procedure

Any member of the Scheme or member of staff is able to report a breach. The individual reporting such a breach will be referred to as the 'reporter'.

The reporter should, in the first instance, bring any concerns that a breach of the law has occurred to the Governance and Compliance Manager within 3 working days. To bring a suspected breach to the attention of the Governance and Compliance Manager, the reporter must submit the details of the suspected breach in writing by hard copy by post or by electric submission to the Governance and Compliance Manager.

Once received, the Governance and Compliance manager will undertake the necessary review of the reporting document and then decide whether this represents a breach in considering the above.

In line with guidance issued by the National Standards Board and any other guidance that may be applicable and introduced from time to time, the Governance and Compliance manager is able to:

1. Obtain clarification of the law if it is not clear;
2. Clarify the facts where they are not known; and
3. Consider the material significance of the breach.

This procedure allows for no more than 14 days to elapse from the time that the suspected breach is raised until the Governance and Compliance manager decides whether the breach must be reported further to the Scheme Manager and/or Pensions Regulator.

Breach Reporting Form

Name of reporter

Date of breach

Why do you think this is breach?			
Details of breach			
Implications of breach			
Actions to rectify breach			
Has the breach been rectified?	Yes	<input type="text"/>	Date
	No	<input type="text"/>	Expected resolution date

Ongoing actions to rectify	
Other relevant information	
Changes to practice / procedures	

Ref to Governance Manager Date (within 3 days of breach)

Ref to Head of Pensions Date

Ref to S151 Officer Date

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Breaches Flowchart

1	a	Possible Breach identified	Complete form within 3 days	
	b	Serious Breach raised with Head of Pensions	Head of Pensions to complete stage 3	
	c	Breaches have been raised with the Pension Committee	Head of Pensions to complete stage 3	
2	Breach form completed		Pass to Governance and Compliance Manager	
3	Form received by Governance and Compliance Manager		Check facts	
			Check requirements of the law	
4	Has a breach occurred	No	Refer to Head of Pensions to sign off	
		Yes	Enter in Breaches log	
5	Is the breach Material	No	Refer to Head of Pensions to sign off	update Breaches log
		Not clear	Refer to Head of Pensions to make recommendation	update Breaches log
		Yes	Refer to Head of Pensions to make recommendation	update Breaches log
6	Head of Pensions receives referral	Not clear if Breach is Material	Make recommendation and refer to S151 Officer for decision	update Breaches log
		Breach is Material	Make recommendation and refer to S151 Officer for decision	update Breaches log
7	S151 Officer decides breach is Material		Scheme Manager reports Breach to the Pensions Regulator	Update Breaches Log

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Type of Breach	Timescale for reporting	Internal actions	Further actions
Urgent and Material	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is reported immediately to The Pensions Regulator	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report urgent and material breaches to Section 151 officer, Chair and Vice Chair of Committee and Local Pension Board. Full report to be submitted at the next available meeting
Non urgent and Material	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is reported to the Pensions Regulator within 30 days	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report non urgent and material breach at next Pension Committee and Pension Board meeting
Immaterial	Responsible officer informs Head of Pensions and Treasury and the governance team within 30 days	Governance team to keep record of the breach and investigate options to prevent further occurrence	Report immaterial breach at next Pension Committee and Pension Board meeting

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Reporting Breaches of the Law Policy

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Legal requirements

Certain people are required to report breaches of the law in writing to the Compliance and Governance Manager as soon as reasonably practicable and where they have reasonable cause to believe that:

- A legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with, e.g. keeping records/internal controls; and
- The failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

Those subject to the reporting requirements in the context of public service pension schemes are as follows:

- A Scheme Manager
- Members of Local Pension Boards (“LPB’s”)
- Any person who is otherwise involved in the administration of a public service pension scheme
- Employers. In the case of a multiemployer scheme, any participating employer who becomes aware of a breach should consider their duty to report, regardless of whether the breach relates to, or affects members who are its employees or those of other employers
- Professional advisers including auditors, actuaries, legal advisers and fund managers
- Any person who is otherwise involved in advising the scheme manager in relation to the scheme

Implementing adequate procedures

Identifying and assessing a breach of law is important in reducing risk and providing an early warning of possible malpractice. Those people with a responsibility to report breaches, including Scheme Managers (in particular Pension Committee Members and officers) and LPB members (reporters) should establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations. Procedures should enable people to raise concerns and facilitate the objective consideration of those matters

Procedures will include the following features:

- Obtaining clarification of the law where it is not clear to those responsible for reporting
- Clarifying the facts around the suspected where they are not known
- Consideration of the material significance of the breach taking into account its cause, effect, the reaction to it, and its wider implications, including where appropriate, dialogue with the Scheme Manager or LPB
- The breach will be reported to the Governance and Compliance manager in the first instance, who will assess the cause, effect and the wider implications and determine if it is likely to be of material significance to the Pension Regulator and/or the Scheme Manager.
- A timeframe of 14 days for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable

Judging whether a breach must be reported

Breaches can occur in relation to a wide variety of the tasks normally associated with the administration function of the scheme such as keeping records, internal controls, calculating benefits, making investments, or investments related decisions.

Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated. Therefore, it is imperative that where a breach is suspected, reporters still refer the matter to the Compliance and Governance Manager so that investigations can be undertaken to establish whether or not a breach has in fact occurred and if the matter requires escalation to the Scheme Manager.

In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Scheme Manager or the Pension Regulator may require before taking legal action.

It is also important that a reporter is aware that any delay in reporting any potential breach may exacerbate or increase the risk of the breach causing further and more significant issues.

The cause of the breach

The breach is likely to be of material significance to the Scheme Manager or the Pension Regulator where it is for example, caused by (but not limited to):

- Dishonesty
- Poor governance, inadequate controls resulting in deficient administration, or slow or inappropriate decision-making practices
- Incomplete or inaccurate advice

- Acting (or failing to act) in deliberate contravention of the law

A breach will not normally be regarded as materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances.

The effect of the breach

Evidence in relation to any of the following matters is particularly important and likely to be of material significance to the Scheme Manager and the Pension Regulator:

- Local Pension Board members, **Committee Members or officers** not having the appropriate degree of knowledge and understanding
- Local Pension Board members, **Committee Members or officers** having a conflict of interest
- Adequate internal controls not being established and operated
- The right money/contributions not being paid to the scheme at the right time
- Internal Dispute Resolution Procedures not having been made and/or implemented
- Information about benefits and other information about scheme administration not being disclosed to scheme members and others
- Information about **the Local Pension Board or Committee** not being published
- The scheme not being administered properly
- Appropriate records not being maintained
- Local Pension Board members, **Committee members or officers** having misappropriated any assets of the scheme or being likely to do so
- Repeated miscalculations or incorrect payment of benefits which have a detrimental impact on scheme members

The reaction to the breach

Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the Pension Regulator will not normally deem it to be materially significant.

A breach is likely to be of concern and material significance to the Pension Regulator where a breach has been identified and those involved:

- Do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence.
- Are not pursuing corrective action to a proper conclusion or
- Fail to notify affected scheme members where it would have been appropriate to do so.

Submitting a report to the Scheme Manager

All reports of possible breaches must be submitted in writing to the Compliance and Governance Manager. However, if the matter is considered particularly serious by the reporter it can be preceded by a telephone call, and brought directly to the Scheme Manager's attention (if appropriate).

Reporting more serious concerns

Where sufficiently serious concerns exist or where a concern has been raised with the Pension Committee and the LPB consider that the Pension Committee have not taken appropriate action to rectify the issue it may be more appropriate for the LPB to report these directly, to the Pensions Regulator. Such concerns could include (but are not limited to) fundamental breaches of the Regulations or a fundamental failure by Croydon Council to ensure the effective governance of the fund. In such situations reports should be made directly to the Governance and Compliance Manager who will then take the appropriate action and may refer the matter to the Pensions Regulator.

Reporting Procedure

Any member of the Scheme or member of staff is able to report a breach. The individual reporting such a breach will be referred to as the 'reporter'.

The reporter should, in the first instance, bring any concerns that a breach of the law has occurred to the Governance and Compliance Manager within 3 working days. To bring a suspected breach to the attention of the Governance and Compliance Manager, the reporter must submit the details of the suspected breach in writing by hard copy by post or by electric submission to the Governance and Compliance Manager.

Once received, the Governance and Compliance manager will undertake the necessary review of the reporting document and then decide whether this represents a breach in considering the above.

In line with guidance issued by the National Standards Board and any other guidance that may be applicable and introduced from time to time, the Governance and Compliance manager is able to:

1. Obtain clarification of the law if it is not clear;
2. Clarify the facts where they are not known; and
3. Consider the material significance of the breach.

This procedure allows for no more than 14 days to elapse from the time that the suspected breach is raised until the Governance and Compliance manager decides whether the breach must be reported further to the Scheme Manager and/or Pensions Regulator.

Review of Breaches of the Law log

Alternate meetings of the Pension Committee and the Local Pension Board will receive a copy of the updated Breaches of the Law log providing the following information:

- Date
- Category

- Description and cause of breach
- Possible effect of breach and wider implications
- Reaction of relevant parties to the breach
- Reported/not reported (with justification if not reported with dates)
- Traffic light colour
- Outcome of report and/or investigations
- Outstanding actions

Date	Category	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to the breach	Reported/Not reported (with justification if not reported and dates)	Traffic light colour	Outcome of report and or investigations	Outstanding actions
09-Apr-15	Administration Immaterial	Failure of the Scheme employer (not the Council) to obtain a report from a Registered Medical Practitioner (IRMP). Failure of employer to decide whether to refer the employee to an Independent IRMP and to make a decision within a reasonable timescale. Failure to make a decision on their entitlement under reg 35. Failure to notify the member of any decisions made.	Failure of the employer to follow the correct procedures in relation to the LGPS has prevented timely and appropriate action under the regulations.	Member contacted the Pensions Team on 9 April 2015. Deferred benefits sent out until 26 April 2017. Internal Dispute Resolution Procedure application received on 19 January 2018.	The matter was referred to the Pensions Ombudsman. No referral has been made to The Pensions Regulator.		Stage 1 complaint upheld on 1 May 2018. Compensation payment £500.00 made 28 March 2019 for failure to notify benefits within required timescales. Stage 2 complaint upheld on 1 November 2019. Pension Ombudsman has closed the case as the member has now settled with her employer.	

Aug-19	Administration	Failure to produce 100% of Annual Benefit Statement notifications	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Error reports identified members without statements which the technical team checked. Some had not required a statement as they had not passed an increase date. The remainder had the issues resolved and statements were sent out.	The matter was not referred to The Pensions Regulator. All the issues were identified through error reports and resolved. Statements were sent to all individuals where a statement was required. No further action was needed.		Not reported. Only 3.36% for active members and 2% for deferred members not issued. The issues are being addressed so that notifications can be sent.
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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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