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Pension Committee Agenda

To: Councillor Andrew Pelling (Chair)
Councillor Clive Fraser (Vice-Chair)
Councillors Simon Brew, Jan Buttinger, Robert Canning, Pat Clouder and Yvette Hopley

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

Reserve Members: Luke Clancy, Nina Degrads, Steve Hollands, Karen Jewitt, Caragh Skipper and Robert Ward

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Friday, 3 December 2021** at **10.00 am** in **Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX**

Katherine Kerswell
London Borough of Croydon
Bernard Weatherill House
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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 Part A minutes of the meeting held on 14 September 2021 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. **Governance Review** (Pages 11 - 52)

   The Committee is asked to note the recommendations of the Pension Board in respect of the Review of Pension Fund Governance arrangements.

6. **London Borough of Croydon Pension Fund: Property Transfer Proposal** (Pages 53 - 56)

   This report sets out the argument for rescinding the decision to take forward a proposal to transfer properties into the Pension Fund.

7. Pension Fund Governance: the Admission Policy, the Bulk Transfer Policy and the Policy for Employers Leaving the Fund (Pages 57 - 110)

This Report explains the rationale for the Committee to agree an "Admissions Policy", "Bulk Transfer Policy" and a "Policy for Employers Leaving the Fund" and recommends these documents to the Committee for approval.

8. Pension Fund Annual Report 2019/2020 (Pages 111 - 198)

This report asks the Committee to note the draft Croydon Council Pension Fund Annual Report 2019/2020 (Appendix 1) and the draft Grant Thornton Audit Findings Report (Appendix 2).

9. Pension Fund Annual Report 2020/2021 (Pages 199 - 282)

This report asks the Committee to note the draft Croydon Council Pension Fund Annual Report 2020/2021 (Appendix 1).

10. Review of Breaches Log (Pages 283 - 294)

It is a requirement of The Pension Regulator for the Pension Fund to maintain a breaches log detailing incidences where breaches have occurred. In line with the recommendations of the Aon Hewitt Governance Review, on 15 September 2020 the Committee agreed the revised Reporting Breaches of the Law Policy. This included a requirement for the Committee to monitor breaches on a regular basis. This report presents the current log (Appendix A) for the Committee's consideration.

11. Update on funding position as at 30 September 2021 (Pages 295 - 310)

This report updates the Committee on the performance of the Pension Fund since the last actuarial valuation.

12. Progress Report for Quarter Ended 30 September 2021 (Pages 311 - 320)

This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 30 September 2021.

13. Minute Taking at meetings of the Pension Committee and Pension Board (Pages 321 - 324)

Following a request at the most recent Pension Committee meeting, this report provides Members with an opportunity to consider alternative provision for minute taking of Pension Committee and Pension Board meetings.

14. Exclusion of the Press and Public

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

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

PART B

15. Minutes of the Previous Meeting (Pages 325 - 326)

To agree the Part B minutes of the meeting held on 14 September 2021.

16. Croydon Council's Local Government Pension Scheme Employer Contribution Review 2021/2022 to 2022/2023 (Pages 327 - 348)

17. Progress Report for Quarter Ended 30 September 2021 (Pages 349 - 442)

18. Minute Taking at meetings of the Pension Committee and Pension Board (Pages 443 - 444)

Pension Committee

Meeting held on Tuesday, 14 September 2021 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Andrew Pelling (Chair);
Councillor Clive Fraser (Vice-Chair);
Councillors Simon Brew, Jan Buttinger, Robert Canning, Pat Clouder and Yvette Hopley

Apologies: Mr Peter Howard

PART A

1/20 Minutes of the Previous Meeting

The minutes of the meetings held on 16 March 2021 and 25 May 2021 were not available for approval.

The Pension Committee expressed concern for the lack of minutes available; it was noted that the operation of the Pension Fund and the administration of the Committee should be separate from the local authority, and therefore should not have been affected by the current financial pressures on Croydon Council in regards to resourcing.

The Pension Committee requested that minute taking was undertaken separately from Democratic Services. The Chair of the Pension Board suggested to officers that the London Pensions Fund Authority (LPFA) could be approached for guidance.

The Chair requested that the officers responded to the request of outsourcing the production of minutes for Pension Committees at the Pension Committee in March 2022.

2/20 Disclosure of Interests

There were none.

3/20 Urgent Business (if any)

There were no items of urgent business.

4/20 Pension Fund Governance: the Admission Policy, the Bulk Transfer Policy and the Policy for Employers Leaving the Fund

The Chair noted that this item had been withdrawn from the agenda.

5/20 **Review of Breaches Log**

The Pension Committee considered a report which detailed the incidences of breaches which had occurred, as required to do so by the Pension Regulator, and received an introduction from the Head of Human Resources & Finance Service Centre, Victoria Richardson.

In response to a query raised regarding the report, the Pensions Manager, Gillian Phillip, confirmed that the average of refunds had not been reported; however, she would try to report these figures at the next Pension Committee.

The Head of Human Resources & Finance Service Centre confirmed to Members that the failure to sign off the accounts was not due to the Fund being unable to produce them, but was delayed in the external audit process, which was beyond the control of the Fund. It was confirmed that the external auditors were Grant Thornton, and it would be clarified to Members at the next Committee that the accounts from the Fund and from the local authority were audited and produced separately.

RESOLVED – That the Pension Committee agreed to note the report.

6/20 **Government Actuary's Department - Section 13 Analysis of LGPS 2019 Actuarial Valuation**

The Chair thanked the officers for their hard work regarding this report, and the Head of Human Resources & Finance Service Centre and Robert Maloney, the Scheme's Actuary, introduced the report and noted to the Committee that it was still in draft form.

It was noted by Members that the 2019 Actuarial Valuation of the Croydon Pension Fund was overall positive, but it was queried where Croydon was in regards to other London Authorities, and requested a fuller league table of GAD local authority valuation ranking.

In response to queries regarding the GAD metrics used, the Scheme's Actuary confirmed that Croydon was average in regards to the level of prudence used. This was reviewed at each valuation as part of the agreeing of the funding strategy statement. Members' present explained that the GAD measurement was a different metrics for valuation than they had been presented previously, and requested for a comparison between this report and a previous one for context. The Scheme's Actuary agreed to summarise the 2019 report in comparison to the 2016 report at the Pension Committee meeting in December 2021.

In response to queries raised by the Pension Committee Members, the Scheme's Actuary outlined the figures and data that were outlined in the draft report, included in the agenda papers.

The Scheme's Actuary confirmed that he would support the Pension Committee received quarterly update reports on the funding position of the Pension Fund, for both the liabilities and the asset performances.

It was outlined to the Committee that the primary contribution rates was the percentage of pay amount to contribute to future accrual benefits by members and secondary contribution rates was the adjustment to the pay towards any deficit.

RESOLVED – That the Pension Committee agreed to note the report.

7/20 **Croydon Pensions Administration Team Key Performance Indicators for the Period 1 May 2021 to 31 July 2021**

The Committee considered a report which outlined the Key Performance Indicators for the administration of the Local Government Pension Scheme for the three month period up to the end of July 2021.

RESOLVED – That the Pension Committee agreed to note the report.

8/20 **Reporting and Monitoring Contributions 2020/21**

The Committee considered the report regarding the monitoring and payment of contributions by employers into the Pension Fund, which advised them of the position in relation to the quarter from 1 April 2021 to 30 June 2021.

RESOLVED – That the Pension Committee agreed to note the report.

9/20 **Review of Risk Register**

The Committee considered the report which included the risk register attached as an appendix, as it was recommended best practice for the Pension Committee to maintain a risk register covering the most significant risks faced by the Fund.

In response to a query raised regarding the inflation rates around the investment element of the Fund, the Head of Human Resources & Finance Service Centre agreed to liaise with colleagues and report this to Pension Committee Members at the next meeting.

RESOLVED – That the Pension Committee agreed to note the report.

10/20 **Pension Fund Environmental, Social and Governance Policy**

The Committee considered a report which outlined a framework to ensure that the Croydon Pension Fund adopted an Environmental, Social and Corporate

Governance policy that was appropriate and a set of goals that were achievable. Mr Peter Gent, from Mercer, gave an introduction to the Pension Committee, ahead of moving the resolution to exclude the press and public from the discussion of the Part B appendices to Item 12, which included the Investment Performance Report.

In response to a query raised by the Committee, Mr Gent explained that it was not simple to measuring a fossil fuel company, as it was not always apparent, as some companies had fossil fuel reserves. He noted that the aim was to measure fossil fuels, but to have a wider focus on carbon.

Following the discussion in the Part B session, the Pension Committee unanimously agreed to amend recommendation 1.2 in the report to the following:

"To revise section 6 of the Investment Strategy Statement to read *'The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments* ***overtime***. *Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these [same] environmental, social and governance policy issues.'*

RESOLVED – That the Pension Committee agreed to the recommendations set out in the report, with inclusion of the amendment outlined above.

11/20 Progress Report for Quarter Ended 30 June 2021

The Committee considered the Part A report, which gave introduction to the commercially sensitive context to the performance of the Pension Fund over the most recent quarter. The performance analysis and market commentary provided by Mercer were included as appendices to the restricted report.

Pension Committee Members noted concern that the basic trends were usually reported in Part A, and wished to ensure that this continued going forward.

RESOLVED – That the Pension Committee agreed to note the report.

12/20 Exclusion of the Press and Public

The following motion was moved by Councillor Andrew Pelling and seconded by Councillor Clive Fraser 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.

13/20 **Progress Report for Quarter Ended 30 June 2021 (Appendices to Item 12)**

This report was considered in Part B of the meeting.

Signed:

Date:

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REPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**Governance Review**
LEAD OFFICER:	**Nigel Cook - Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION

The Committee is asked to:

1.1 Consider the recommendations set out here and add these to the current Action Plan; include Aon's recommendations in their report of August 2021; and incorporate the following additional actions as recommended by the Pension Board or, in the case of paragraph 1.1.10, the Chair of the Board:

1.1.1 To create a Head of the Pension Fund position, accountable directly to the Pension Committee and the S151 officer for all aspects of the Fund including governance, investment and pensions administration;

1.1.2 To appoint non-Council employer representatives to the Pension Committee;

1.1.3 To create an explicit policy on voting rights at the Committee;

1.1.4 Where services are provided by the Council, including the provision of payroll and meeting support services, to put in place service level agreements covering delivery times, volumes and price.

1.1.5 To compile a 3-year financial plan covering admin, fund management and other overhead costs;

1.1.6 To create bespoke procurement and recruitment policies for the Fund;

1.1.7 That the administering authority should proactively consider the use of third party suppliers to increase the resources available to the Fund;

1.1.8 That the Fund Annual Report and Accounts be reported to the Pension Committee prior to being reported to the General Purposes and Audit Committee;

1.1.9 To include all negative and neutral rated items in the latest Aon report into an updated governance review action plan; and

1.1.10 That a small annual allowance should be paid to Pension Board members to reflect the increasingly onerous skills and training requirements.

1.2 Consider the progress already achieved against the original governance review actions and the new governance review actions at every alternate meeting of the Committee.

2. EXECUTIVE SUMMARY

2.1 This report details the findings of the latest governance review carried out by the Fund's governance advisors Aon and the recommendations of the Pension Board in respect of actions required to address identified action points.

2.2 This report also provides details of progress achieved against the original governance review actions and the actions identified in the latest review.

2.3 The report makes recommendations accordingly.

3 DETAIL

3.1 A governance review carried out by Aon, the Fund's governance advisors, was commissioned by the Fund and its findings in were reported in September 2019. It was envisaged that completion of the actions identified would be delivered over a 3 year period. A follow up review with a much narrower scope that the 2019 review focusing on specific areas defined by the Pension Board was carried out in August 2021.

3.2 Whilst it is not a legislative requirement to carry out governance reviews it is regarded as good practice to do so and Aon see it as a positive action on the part of the Fund which they praised. It is a working tool to assist in improving governance arrangements on an ongoing basis.

3.3 The Pension Board continue to scrutinise and assess the governance arrangements for the Fund using the Aon Governance Model as a benchmark. Aon's latest findings were presented to the Board on 3 November 2021 and

Members of the Pension Committee were invited to that presentation. The Chair and Opposition representative were present. The report that was presented to the Board is appended to this report as Appendix A.

3.4 Members' attention is drawn to the significant positive actions already embedded in practices and progress made by officers in delivering the recommendations of the original review in 2019 and the latest review and should note that the pensions team are already actively working to address the remaining points covered by both reviews.

3.5 The latest review rated areas of practice considered as:

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

3.6 13 elements in the latest governance review were highlighted as positive. These included:

1. The latest Funding Strategy Statement was approved by the Committee in May 2021;
2. The Funding Strategy Statement has been updated to reflect the 2020 Amendment Regulations on exit credits and sets out the Administering Authority's policy on employer flexibilities;
3. The Investment Strategy Statement was updated in March 2020 in respect of the asset allocation strategy;
4. The Compliance Policy was approved by the Committee at their meeting on 17 September;
5. The Compliance Statement in Appendix B incorporates all the points from the 2008 guidance and was reviewed by the Pension Committee;
6. The Compliance statement was reviewed by the Pension Committee;
7. The latest version of the Communications Policy was approved by the Committee on 17 September 2019;
8. No improvements were required to the Administration Strategy when it was last considered in 2019. However, the Strategy is now currently under review and a revised version will be issued for consultation shortly;
9. The Risk Management Policy was reconsidered and approved at the 17 March 2020 Committee;
10. Following Aon's recommendation that a single Fund Knowledge and Skills/Training Policy was created, standardising the approach for all Fund stakeholders in accordance with the SAB and CIPFA requirements;
11. The new knowledge and skills policy was approved by Committee on 17 March 2020;
12. A business plan is in place; and
13. The governance structure was rated as good in the previous 2019 review so no action was needed.

3.7 38 items were rated as neutral.

1. Where documents needed to be uploaded to the website, these actions have been completed.
2. There are some items around reviewing content of policies which will be incorporated into the Fund action plan.
3. Items such as the Discretions Policy and Conflicts of Interest Policy, although rated negative and counted in the progress figures as such, have the recommendations to ensure they are put in place shown as additional neutral actions, thereby counting in the data more than once.
4. In regard to some policies there are more than one neutral comments, which have been rated separately, thereby counting separately in the data figures in this report. In reviewing these policies, several actions will be resolved in amending each of these documents, thereby clearing several action points per policy.
5. There were 10 neutral ratings concerning the Governance Structure including:
   a) The function of the Board needs updating in the constitution
   b) There should be greater detail regarding the scheme of delegation
   c) There should be greater employer representation on the committee and consideration of voting rights.
   d) As much continuity of Fund management should be ensured as possible, with new members being appropriately trained.
   e) There is a lack of timely information provision for Fund Officers from the Council's political offices on changes in membership of the Pension Board and Committee
   f) A recommendation that relevant individuals within appropriate teams in the Council are reminded of the responsibilities placed on members of the Pension Board and Committee
   g) To assess whether the Fund's governance arrangements have evolved to meet the needs of asset pooling with the London CIV.
   h) To update the Constitution of the Administering Authority in respect of the London CIV
   i) To ensure the Board and Committee are assured on areas of reporting, information and engagement from the London CIV.
   j) To investigate the reasons for supplemental paper publishing with a view to minimising this

   With regard to item 10, historically there have been some issues with the length of time taken by legal in turning around documents submitted to them for review. Officers have built in greater time frames for legal consideration where possible. It should also be noted that adding additional meetings and changing meeting dates at short notice impacts on the time available to produce reports and circulate them for consideration, making it more difficult to finalise papers in time for meeting publishing dates. It takes a considerable amount of time to produce the documentation and carry out meeting administration, which impacts on other areas of service delivery.

Other significant areas rated as neutral were the recommendation of introducing a more detailed business plan and supporting the officer team by additional resourcing.

3.8 As at 2 November 2021 29% of the neutral rating actions have been completed and a further 16% are in progress, making a total of 45% of actions having been progressed.

3.9 Three items were rated as negative: the Administering Authority Discretions Policy, the Fund Annual Report and Accounts 2019/20 and the Conflicts of Interest Policy.

1. The Discretions Policy has been created and will go to Committee for consideration, after consultation, in March 2022;
2. The Annual Report and Accounts will be reported to the Committee on 3 December 2021.
3. At their meeting of 14 September, the Committee stated a desire for a Fund Conflicts of Interest Policy to be put before them, something which the Board have previously supported. A draft document was created some time ago and The Head of Pensions is liaising with the legal team to take this forward as soon as possible.

3.10 As at 2 November 2021, 67% of the negative rating actions are in progress: half of these will be completed by 3 December 2021 and the other half will be completed by March 2022.

3.11 Of the original points on the 2019 Governance review, as at 2 November 2021, 63% of the actions have been completed and 31% are in progress, making a total of 94% of actions either completed or in progress.

Of the 31% in progress items, 9% will be reported to the 3 December committee meeting for consideration. A further 27% are completed and will be reported to the 22 March committee meeting for consideration.

This will bring the completed actions figure to 74% (currently at 63%) by March 2022.

3.12 At their meeting on 3 November the Board made a number of recommendations to the Committee in relation to Aon's August 2021 report as follows:

- To create a Head of the Pension Fund position, accountable directly to the Pension Committee and the S151 officer for all aspects of the Fund including governance, investment and pensions administration;
- To appoint non-Council employer representatives to the Pension Committee;
- To create an explicit policy on voting rights at the Committee;
- Where services are provided by the Council, including the provision of

payroll and meeting support services, to put in place service level agreements covering delivery times, volumes and price.

- To compile a 3-year financial plan covering admin, fund management and other overhead costs;
- To create bespoke procurement and recruitment policies for the Fund;
- That the administering authority should proactively consider the use of third party suppliers to increase the resources available to the Fund;
- That the Fund Annual Report and Accounts be reported to the Pension Committee prior to being reported to the General Purposes and Audit Committee; and
- To include all negative and neutral rated items in the latest Aon report into an updated governance review action plan.

In addition the Chair recommended:

▪ That a modest annual allowance should be paid to Pension Board members to reflect the increasingly onerous skills and training requirements.

3.13 The substantive recommendation from the Board is to commend the governance report to the Pension Committee for their consideration and for the Committee to consider an appropriate action plan to implement its recommendations.

4. CONSULTATION

4.1 The Scheme's Governance advisors have been consulted throughout this process.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that the Pension Committee's role is to discharge the responsibilities for Croydon Council in its role as lead authority for the administration of the Croydon Pension Fund ('the Fund').

6.2 In particular the Committee's terms of reference provide at Part 4N of the Council's Constitution that it shall:

- Ensure 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;
- Adopt Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level;
- Be responsible for compliance with all financial and regulatory requirements of the Fund; and
- 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 arrangements, 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 statuary statements and policies required under the Regulations;
  e. To approve the Fund's Statements of Accounts and annual report; and
  f. To ensure that the Council discharges its obligation, as administrating authority for the local government pension scheme, to other scheme employers.

6.3 Separately the Pension Board secures the effective and efficient governance and administration of the Fund. However, the Board is not a decision making body and it is therefore for the Committee to ensure that appropriate actions are undertaken, as required. As part of good governance of the Scheme, the Pension Committee is required to work with, receive and consider reports from the Local Pension Board.

6.4 Any changes to the Council's Constitution proposed will require full Council approval.

6.5 Having in place appropriate and effective governance arrangements will enable the Committee to discharge its statutory and constitutional obligations and ensure the Fund is operated in a legally compliant manner.

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

7. HUMAN RESOURCES IMPACT

7.1 The creation of a Head of the Pension Fund position should be subject to open and transparent recruitment to ensure the Council's fulfils its statutory and policy requirements, including ensuring compliance with its Equality Act 2012 public sector equality duty to appoint with a fair, transparent and merit-based approach.

Approved by: Dean Shoesmith, Interim Director of Human Resources

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Dean Shoesmith, Interim Chief People Officer

CONTACT OFFICER:

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

APPENDIX:

Appendix A: Update Governance Review Report, Aon, August 2021

BACKGROUND DOCUMENTS:

None.

Governance Review

Update report for London Borough of Croydon Pension Fund

Prepared for:	London Borough of Croydon, Local Pension Board
Prepared by:	Alison Murray, Partner and Mary Lambe, Senior Public Sector Benefits & Governance Consultant
Date:	18 June 2021

Introduction

This document is an update report on the governance of the London Borough of Croydon Pension Fund (the Fund).

Why bring you this report?

We were commissioned by the London Borough of Croydon Local Pension Board to undertake an update to supplement the findings of our 2019 Governance Review and deliver a report of our findings.

The purpose of this review is to consider the current position of the Fund, particularly given some of the changes and pressures the Fund has faced over 2020/21, both externally and internally.

What does the report cover?

We have assessed the governance of the Fund with our work comparing the Administering Authority's current practices (at a high level) against the Aon Governance Framework (see Appendix A).

This report considers those areas that were recorded as amber or red in the 2019 review which were included in the Fund's action plan from that review. We were asked to focus on a number of central themes including:

- Appropriate representation – assessing representation within the current governance structure including within the London CIV governance framework. This can be found on pages 19-21 of the report.
- Knowledge and skills – assessing the acquiring, maintenance and recording of training by the Pension Committee and Pension Board. This can be found on pages 23-25 of the report.
- Continuity of membership – assessing the turnover of membership on the Pension Committee and Pension Board and any impact that may have on the governance of the Fund. This can be found on page 20 of the report.
- Action plan review – brief assessment of the action plan that the Fund has followed since the 2019 review to understand progress, identifying if any resource or business planning issues exist. We have made that assessment throughout the document.

Next steps

We recommend that the Pension Board in conjunction with Fund Officers consider the recommendations set out in this report and consider what (and how) they should be fed back to the Pension Committee. We further recommend that the action plan is updated to incorporate our additional recommendations, in order that progress can be monitored on an ongoing basis.

Contents

At a glance…

We have been asked by the London Borough of Croydon Local Pension Board to update information to supplement the Governance Review we undertook in 2019 in relation to the Fund.

The purpose of this review is to consider the current position of the Fund, particularly given some of the changes and pressures the Fund has faced over 2020/21, both externally and internally.

The approach taken when carrying out the review in 2019 and this review has been to compare the Administering Authority's current practices (at a high level) against the Aon governance framework (see Appendix A). This report considers those areas that were recorded as amber or red in the 2019 review which were included in the Fund's action plan from that review. We were asked to focus on a number of central themes including appropriate representation, knowledge and skills, continuity of membership and reviewing progress against the 2019 action plan.

Key findings

The review highlights areas of good practice in relation to the governance of the Fund and also makes some recommendations for improvement. Our overall conclusion is that the governance of the Fund is of a good standard in many areas, meets legal requirements on the whole, with a number of improvements since the 2019 report, with the Governance Action Plan tracking progress against the recommendations we made.

Improvements made include:

- Introduction of a new Knowledge and Skills / Training Policy
- Development of a Fund business plan
- Introduction of a system to record and monitor breaches and report these to regularly to the Committee and Board.

Other observations and recommended future improvements

Whilst progress has been made, there are some actions on the Governance Action Plan which are outstanding and which we recommend are completed. This includes ensuring that all policies which are due for review are reviewed, updated and published online as required.

The delay in publication of the 2019/20 Fund Annual Report and Accounts is an area of concern although it is not clear that this could have been avoided given issues with the Council Report and Accounts.

A number of senior officers involved in the management of the Fund have left the Council, including the Section 151 officer. We understand that this has caused some problems and delays with securing sign off of pension Fund initiatives such as contract extensions and is causing concern for officers in terms of signatories for official activity. Whilst the impact of

COVID-19 will not have helped, the Administering Authority should consider whether the lack of progress in some areas is, at least in part, due to a lack of resource, noting there remain a number of vacancies. The Administering Authority should maintain a proactive and vigilant approach to monitoring the impact of changes in resources and the impact of increases in workload, as well as considering succession planning, to mitigate the risks on the administration and management of the scheme. Greater strategic leadership may be needed in this area.

We also note that there have been some changes at the Committee too, most noticeably the replacement of the Chair during 2020 by a new member on the Committee, although we understand that Cllr Pelling has been re-installed as Chair from May 2021 and Cllr Kabir is no longer on the Committee and has moved to the Board. We also understand that the Vice-Chair has resigned and been replaced by a new member on the Committee. There also appears to be one vacancy with only 7 Cllrs currently listed as being Committee members and since 2015/16 we note that there have been 9 changes in Committee membership. Whilst some degree of change amongst Committee membership is inevitable, particularly given the local election cycle, given the wider issues at the Council with the Section 114 notice (albeit that has now been withdrawn) and loss of many senior officers, ensuring as much continuity as possible in relation to the management of the Fund should be a priority. We would also **recommend** that any new Committee members are given timely induction training to ensure they can constructively contribute to the management of the Fund as soon as possible.

We raised queries in our 2019 report regarding the level of engagement and wider information shared regarding the London CIV. We note that in January 2021 the Board were informed that going forward, the Chair of the Pension Committee would be a representative on the stakeholder board and would report back on a regular basis with information from the CIV. We have not seen evidence of this reporting back to provide comment in this report. Formally CIV structures need to be represented in the Council's constitution (which was a recommendation from 2019).

We note that supplemental papers were issued for the January, March, September and December 2020 and March and May 2021 Committee meetings as well as October 2020 and January 2021 Board meetings. We **recommend** investigating the reasons for this and encourage this to be minimised in the future. We have a number of recommendations relating to Conflict of Interest including the need to publish a Fund-wide Policy and undertake periodic training on the subject particularly with newer members joining the Committee and Board. In addition, we have highlighted the potential and perceived conflict of interest around the future transfer of properties leased to Croydon Affordable Homes and Croydon Affordable Tenures. We have not reviewed the merits of this decision in principle but rather draw the Boards' attention to the perception of conflict of interest in terms of members' fiduciary duty to the Fund as opposed to the Council as a participating employer (with funding obligations to the Fund).

In their February 2020 meeting the Committee acknowledged concern about the turnover of members and the risk that posed in terms of undermining the expertise of the Committee. In recent discussions with

Officers that issue was restated in that training requirements are greater and more challenging given the changes to the Committee in particular. We **recommend** that induction training requirements are clearly set out in your Policy (it is currently missing) and that this is explained and facilitated for all new members on joining the Committee and Board.

We also have included a brief assessment of the Fund's action plan following our 2019 review to understand progress made, identify if any resource or business planning issues exist in the areas of progress made, and consider resources and business planning.

We also acknowledge the volume of external change taking place in the LGPS and the impact that has on resources and business planning. Within the report we have highlighted a number of initiatives and changes to reflect on including:

- **Good Governance Review:** The SAB published its final report on the Good Governance project in February 2021 and have made a formal request to MHCLG and other bodies to implement the recommendations from the project. It may be some months before there are further developments due to other national priorities. In the meantime, we **recommend** that the Board and Committee carry out a check of how the Fund complies with the recommendations and where work will be required to ensure compliance. In particular we suggest that senior officers within the Council with responsibility for pensions alongside senior officers in the Fund start to consider how well the Fund would be able to adapt to potential new requirements for a new dedicated LGPS Senior Officer “who is responsible for the delivery of all LGPS related activity for that fund”.
- **New TPR Single Code:** TPR are replacing their current Codes of Practice with a single new code of practice. At the time of writing the new Code is in draft following a consultation period. The Administering Authority should carry out an evaluation against the new Code's requirements in due course and address areas of partial compliance and non-compliance in a timely manner. It should also evaluate compliance on a regular basis.
- **CIPFA Knowledge and Skills Code and Framework:** Revised and updated Code of Practice and Framework for Committees and Officers is expected shortly. The Administering Authority should, in due course, ensure it is complying with these new items of CIPFA guidance.
- **McCloud:** Whilst the implications are largely administrative, there are arguably governance angles to this due to the resource implications - all administering authorities have a huge task in reviewing the benefits of members who have left since 2014. We note that the Local Pension Board have been considering this in their meetings and given the volume of activity needed to rectify members' benefits we support that engagement. We recommend the Board continue asking questions of officers/administrators to ensure that they are prepared for the changes and that data collection is underway to enable the final salary underpin to be calculated – our experience is that this will be a lengthy process and that much of the required data is proving hard to obtain.

We would be delighted to discuss our findings with you in more detail.

Purpose and scope

Building on 2016 and 2019 governance reviews we have undertaken a further review to consider the current position of the Fund, particularly given some of the changes and pressures the Fund has faced over 2020/21, both externally and internally.

What is covered in this report?

This report should be considered as an update to the 2019 report given its narrower scope and focus on key areas as requested by the Fund. The focus of this report includes assessing what has improved since the 2019 exercise, what has not changed since the 2019 exercise and identifying areas that require improvement. The key content requested by the Administering Authority for this review includes:

- The representation within the current governance structure including within the London CIV governance framework.
- The acquiring, maintenance and recording of training by the Pension Committee and Pension Board.
- The turnover of membership on the Pension Committee and Pension Board and any impact that may have on the governance of the Fund.
- The action plan that the Fund have followed since the 2019 review to identify progress and to identify any resource or business planning issues that exist.

We have also considered the Fund's evolution to address recent and planned future changes in legislation relating to governance matters.

How have we approached this work?

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

Aon Governance Framework

Where appropriate, we have compared the Administering Authority's practices against the **Aon Governance Framework (see appendix A)** for consistency with the approach we took when carrying out the governance review in 2016 and 2019, albeit the scope of this review is much narrower as set out above.

Structure of this report

This report considers areas that were recorded as amber or red in the 2019 review, which were then included in the Fund's action plan (put in place after the 2019 review). We have assessed what progress has been made as well as undertaking a full assessment of any existing policies which have been updated and new policies in place since 2019. We have not reviewed the current status of any areas that were classed as green in the 2019 review. In the report we highlight the findings of the 2019 report to allow for easy comparison of the progress made (where relevant).

Throughout the report we have included comments to highlight areas of good practice and identify areas for potential improvement. To provide some greater clarity on the intention of our comments, we have included graphics to illustrate whether they are:

☺ positive – meets legal requirements, national guidance and good practice.

☹ negative – requires improvement as it does not appear to meet legal requirements or practices we consider key to good governance.

😐 neutral – meets legal practice, in the main, but could be improved to meet good practice or national guidance.

Research

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

- Desk-top review of key reports, strategies and policies governing the scheme that were found not to be satisfactory at the last review, any new policies or strategies and web information. The documents considered are listed in Appendix B.
- Papers and minutes from Pension Committee and Pension Board meetings since September and October 2019 respectively.
- Training plans and activity since September 2019.
- Progress against the Action Plan developed following the Governance Review Report dated September 2019.
- Informal discussions with Nigel Cook and Alison Fisher, senior officers with responsibilities for the management of the Fund, and Mike Ellsmore as Chair of the Pension Board.

Wider LGPS Landscape

As part of this review we refer to a number of recent or planned changes particularly in relation to governance of the LGPS and how the Fund needs to evolve and manage these in the future. In summary the key developments include:

- **Good Governance Review:** The Scheme Advisory Board (SAB) published its final report[1] on the Good Governance project in February 2021 and have made a formal request to the Ministry for Housing, Communities and Local Government (MHCLG) and other bodies to implement the recommendations from the project. SAB will be identifying

[1] Source https://lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf

and promoting best practice in the LGPS to assist in taking forward the recommendations made. In addition to this MHCLG would need to implement some of the changes either by amending regulations or via statutory guidance. It may be some months before there are further developments due to other national priorities. In the meantime, **we recommend** that the Board and Committee carry out a check of how the Fund complies with the recommendations and where work will be required to ensure compliance. In particular we suggest that senior officers within the Council with responsibility for pensions alongside senior officers in the Fund, start to consider how well the Fund would be able to adapt to potential new requirements for a new dedicated LGPS Senior Officer "who is responsible for the delivery of all LGPS related activity for that fund".

- **New TPR Single Code:** TPR are replacing their current Codes of Practice with a single new code of practice. The new code brings together 10 existing codes of practice, including Code of Practice 14 (the code of practice which applies to the LGPS), into a single (on-line) code which will apply to all UK pension schemes. At the time of writing the new Code is in draft with the consultation having recently closed. Within the report we include some further details about potential changes for the Board and Committee to be aware of.
- **CIPFA Knowledge and Skills:** Aon has been working with CIPFA to refresh their knowledge and skills framework for Pension Committee members and Officers and their Code of Practice. Updated documents are expected to be published shortly. **We recommend** the Fund should, in due course, ensure it is complying with these new items of CIPFA guidance.
- **McCloud Remedy:** Government has confirmed that changes will be made to all the main public service pension schemes, including the LGPS, to remove the unlawful age discrimination identified in the McCloud ruling. Whilst the implications are largely administrative, there are arguably governance angles to this due to the resource implications - all administering authorities have a huge task in reviewing the benefits of members who have left since 2014. We note that the Local Pension Board have been considering this in their meetings and given the volume of activity needed to rectify members' benefits we support that engagement. **The Local Pension Board should continue to ask questions of officers/administrators** to ensure that they are prepared for the changes and that data collection is underway to enable the final salary underpin to be calculated – our experience is that this will be a lengthy process and that much of the required data is proving hard to obtain. We make reference to the impact of McCloud in this report given the impact it will have on Fund activity.

Please note that there are various developments in the Responsible Investment area that the Fund will be working to address but given the scope of this work we have not referred to them in this report.

McCloud - Latest

The latest development in the LGPS is the **Written Ministerial Statement** from the LGPS Minister Luke Hall who made a statement on 13 May 2021 confirming the key elements of the changes to the LGPS regulations in order to implement the McCloud remedy. **LGPS regulations** are expected to come into force from **1 April 2023**.

Direction – What are you trying to achieve?

In this section, we consider whether the Fund has clear strategies and policies which meet the requirements in the right hand box.

Croydon's Policies and Strategies

In the table that follows, we have considered the status of your existing policies and strategies where they were highlighted as an area of improvement (i.e. amber or red) in the 2019 governance review as well as undertaking a full assessment of any existing policies which have been updated by the Fund and new policies put in place by the Fund since 2019.

When reviewing these policies and strategies, we consider both legal requirements and best practice. Note that we have not considered the principles or methodology within these documents, given that this review is focussed on governance matters and not, for example, on the quality of actuarial or investment matters.

We have indicated in the table whether the documents are;

- legally required under the LGPS, or
- expected in accordance with CIPFA, LGPS SAB or TPR Guidance or Codes (many of which have some element of statutory backing),

and we then make observations against those requirements for the policy or strategy.

Strategies and Policies should:

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

Strategy / Policy (effective date)	Legal or National Guidance Requirements	Observations and progress since 2019 review
Funding Strategy Statement (FSS) effective from 1 April 2020	▪ LGPS Regulations ▪ CIPFA FSS Guidance ▪ MHCLG guidance on employer flexibilities ▪ SAB guidance (which is advisory only)	☺ The latest FSS was updated and was approved by the Committee in May 2021. ☺April 2021 version has been updated to reflect the 2020 Amendment Regulations on exit credits and set out the Administering Authority's policy on the employer flexibilities.
Investment Strategy Statement (ISS) effective from 18 September 2018	▪ LGPS Regulations ▪ MHCLG (formerly DCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement ▪ Compliance Statement against CIPFA guidance on the Myners Principles in the LGPS	☺ The Committee agreed an approach to review the ISS at its meeting on 5 November 2019 then the only change made to the Strategy in March 2020 was the asset allocation strategy. 😐 There continues to be no compliance statement against the Myners Principles. Although no longer required by MHCLG guidance, CIPFA continues to recommend that a statement of compliance be developed and maintained.
Governance Policy and Compliance Statement effective from 18 September 2019	▪ LGPS Regulations ▪ Compliance Statement against Secretary of State guidance (2008)	☺ The policy was reviewed in September 2019 and approved by Committee at their meeting on 18 September. ☺ The Compliance Statement in Appendix B incorporates all the points from the 2008 guidance. 😐 The latest policy and compliance statement is not available on the Fund website (other than in the meeting papers). 😐 The policy still does not reflect the delegated responsibilities and governance structure relating to LGPS pooling through the London CIV. 😐 The policy states it will be updated in June 2020, but we have not seen evidence of this. We are aware of material changes to the membership of the Committee that needs to be addressed in future changes. ☺ We do note that the compliance statement was reviewed by the Pension Committee.
Communications Policy effective from September 2019	▪ LGPS Regulations	☺ The latest version of the policy was approved by the Committee at their meeting on 18 September 2019. 😐 There are still no references to the risks relating to the policy and how they are managed. 😐 The policy still states it will be reviewed annually but we are not aware of any review since 2019. We note the business plan for the Fund refers to review every three years. 😐 The latest policy is not available on the Fund website (other than in the meeting papers).
Administering Authority Discretionary Policy Not in place (albeit a draft has been prepared by Officers)	▪ LGPS Regulations – basic element only	☹ No policy has yet been made. Note the legally required element is just in relation to waiving of reductions for ceased employers, and therefore this is not a major issue but should be rectified. 😐 The Action Plan approved at the Committee meeting on 11 February 2020 included a proposal to "introduce a Pension Fund Administering Authority Discretionary Policy to provide clarity on these areas". Our understanding is that a policy has been drafted but has not yet been considered or approved by the Committee. We noted in the plan of work agreed by the

		Pension Committee in May 2021 that this is being considered in September 2021.
Administration Strategy effective from July 2017	▪ LGPS Regulations, (as an optional strategy)	☺ No improvements were identified in 2019. 😐 The Strategy should have been reviewed after three years but we understand due to resource constraints that hasn't happened. The workplan for the Fund indicates it will be reviewed in September 2021.
Risk Management Policy & Strategy effective from 17 March 2020	▪ CIPFA Guidance	☺ The policy was reconsidered and approved at the March 2020 Committee. 😐 The latest policy is not available on the Fund website (other than in the meeting papers).
Annual report and accounts 2019/20 report and accounts not yet signed off	▪ LGPS Regulations ▪ CIPFA Guidance "Preparing the Annual Report ▪ CIPFA accounting guidance	☹ The 2019/20 pension fund report and accounts have not yet been finalised. This was briefly discussed at the September 2020 meeting of the Committee but was not part of the agenda for the December 2020 meeting nor the March 2021 meeting. It appears to stem from issues with sign off of the Council Annual Report and Accounts.
Knowledge and Skills/Training Policy new combined policy effective from 17 March 2020	▪ CIPFA & SAB ▪ TPR Code of Practice	☺ Following our recommendation that a single Fund Knowledge and Skills/Training Policy was created, standardising the approach for all Fund stakeholders in accordance with the SAB and CIPFA requirements. The new policy was approved by Committee on 17 March 2020 and the LPB training plan was adopted by the Board on 2 April 2020. 😐 The latest policy is not available on the Fund website (other than in the meeting papers). There remains a Board Training Policy online which we assume has been superseded. 😐 We would expect reference to whom the policy applies to be included. 😐 We would expect reference to induction training to be included in the revised policy. 😐 There are two different job titles referred to as the delegated officer, the Director of Finance, Investment and Risk (Section 151) and the Chief Finance Officer. We recommend reviewing for consistency.
Conflicts of Interest Policy It is unclear if there is an approved 2020 Fund version	▪ SAB, required for Pension Board only	😐 We were provided with a Conflict of Policy for the Fund which states that it was approved by the Pension Committee on 17 March 2020. However, the policy is not on the website and nor is it in the March 2020 Committee meeting papers or minutes. ☹ The Action Plan approved at the Committee meeting on 11 February 2020 included an item "Review Board Conflict Policy and expand to cover all those involved with the management of the Fund (i.e. Pension Committee and senior officers) in a Fund wide Conflicts of Interest Policy. It should also have regard to the work with the London CIV". We were provided with a policy which states it was approved by the Committee on 17 March 2020. However, the policy is not on the website and nor is it in the March 2020 Committee meeting papers or minutes. On enquiry Officers explained that the draft report can only go to Committee / Board when cleared by senior officers and other directorates. It is not clear what other directorates need to

		consider a Fund based policy and why this has been delayed. We recommend this is addressed promptly and the Policy is put forward for consideration by the Board and Committee as soon as possible.
Breaches of the Law Procedure extended version effective from September 2020	▪ Pensions Act 2004 ▪ TPR Code of Practice	😐 Following our recommendations, the Action Plan approved at the Committee meeting on 11 February 2020 included an item "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). A revised policy, including a breaches log, was approved by the Committee on 15 September 2020. However, on review the policy remains focused on the Board, it has references to inaccurate guidance and doesn't provide clarity in all areas (including about reporting serious breaches to the Regulator). We recommend this Policy is reviewed sooner than its review date of 2023. 😐 The policy does not state when it was approved or effective from nor what is envisaged as regards reviewing the policy. 😐 The policy is not available on the Fund website (other than in the meeting papers).
Employer (admission / cessation / bulk transfer) Policy		We note from the Fund's medium term business plan (2020-23) that this policy is due for review in June 2021

General principles to follow with strategies and policies

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

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

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

Adherence to The Pensions Regulator Code of Practice

As this area was rated ☺ (good) in the 2019 Report following an independent review against the Code of Practice. We have not focused on this as part of this further review as it was not requested by the Fund.

The new code brings together 10 existing codes of practice, including Code of Practice 14 (Governance and Administration of Public Service Pension Schemes), into a single (on-line) code which will apply to all UK pension schemes. At the time of writing the new Code is in draft given it is being consulted on but some key points for the Fund to be aware of that are new include (this is not exhaustive but is intended to highlight some potential areas of work for the Fund once the new Code is in place):

- **Administration modules:** There are seven new administration modules for the public sector schemes, and these cover all the main operational procedures. Most of the requirements here were already set out in the previous code of practice but the key will be making sure everything is appropriately documented by the Fund. For example, documenting policies for maintaining IT systems is likely to be an area that is new to the Fund. In addition, a new module on 'Cyber controls' now elevates this area to Code (from existing guidance) and will require the Fund to ensure cyber security measures and controls are in place as part of your internal controls.

- **Governing Body modules:** This includes a new module called 'Recordings of meetings and decisions made'. There may be some points of detail in existing policies which need to be reviewed by the Fund, for example documenting any decisions taken outside of meetings within the minutes of the next meeting. There is a "best practice" module 'Remuneration policy', which recommends that there is a written and published remuneration policy covering key personnel involved in running the scheme, which is reviewed at least every 3 years (ideally annually). Another best practice module is 'Continuity planning' which sets out the Fund should have its own continuity plan to document the key actions that would be undertaken under a range of events, to ensure data and administration are not disrupted.

- **Communications and disclosure modules:** There are new requirements for the Fund here on the principles for member communications (accurate, clear, concise), use of technology, and accessibility, as well as steps for mitigating the risk of scams.

The Administering Authority **should carry out an evaluation** against the new Code's requirements in due course and address areas of partial compliance and non-compliance in a timely manner. It should also evaluate compliance on a regular basis.

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

- the legal requirements underpinning the TPR Code of Practice, with a view to ensuring that these are being adhered to, and

- the guidance contained within the code, to consider whether the guidance should be adhered to or an alternative and justifiable approach should be taken.

New TPR Code

TPR's Code of Practice Number 14 – Governance and administration of public service pension schemes ("TPR's Code of Practice") currently sets out legal requirements, and standards of conduct and practice, expected from those who exercise functions in public service pension schemes. TPR recently consulted on a **new single consolidated code of practice** which is expected to replace Code of Practice 14 later this year.

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

TPR carries out regular surveys of public service pension schemes' compliance with the Code and has stated that it expects all schemes to have assessed themselves against the law and its code of practice.

Delivery – How do you meet your aims?

In this section we consider whether the Fund has (i) a business plan in place and how effective that plan might be, (ii) performance monitoring and (iii) risk management.

Business Planning

2021 Findings: Business Plan now in place ☺ however 😐 we recommend several improvements to the Plan.

It is good practice for Funds to have a clear business plan which is formally approved by the Committee each year.

2019 analysis

Whilst there were some elements which would make up a business plan in place, including a forward plan of both Pension Committee and Pension Board business, there was no explicit business plan for the Fund. However, some elements that are undertaken. This area was therefore rated 😐 neutral in our 2019 review.

2021 review

The Action Plan approved by the Committee at their meeting on 11 February 2020 included the following item:

"Introduce a **three-year rolling business plan** incorporating the following areas:

- legislation (e.g. valuation, implementation of a forthcoming legislative changes),
- performance monitoring (e.g. the review of an area of a service that is failing to meet the agreed service standard)
- standard practice (e.g. review of advisers, review of strategies and policies),
- the evolving environment (e.g. new investment vehicles, a greater focus on information technology efficiencies)
- risk management (e.g. reviewing staffing structure due to increasing manpower risk).
- Ensure the Fund's Business Plan aligns with the London CIV Business Plan and that London CIV are aware of LB of Croydon Pension Fund's requirements."

At their meeting on 15 September 2020 the Committee approved a Medium Term Business Plan 2020-23 which was further updated for 2021-24 at the 25 May 2021 Committee meeting.

Business Plans

Guidance:

TPR – Setting a clear purpose and strategy is essential to managing the Fund effectively and getting good outcomes for members[2].

CIPFA – A medium term business plan should be created for the pension fund.

The **LGPS Myners Principles published by CIPFA** explicitly states:

"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."

[2] TPR 21st Century Trustee - https://www.thepensionsregulator.gov.uk/en/trustees/21st-century-trusteeship/3,-d-,-clear-purpose-and-strategy-

We have reviewed the Fund's business plan and have the following comments:

- whilst it does set out the Fund's objectives, these appear to be the funding objectives only, taken from the FSS, we recommend the Business Plan includes the objectives all areas of the management and administration of the Fund.
- the work programme includes business as usual activity, so it is difficult to identify the Fund's key priorities, we recommend that a Business Plan focuses on areas outside the Fund's business as usual.
- there is no mention of key legislative or related changes, such as the McCloud judgement, exit cap changes, good governance review, proposed new Code of Practice from TPR which might reasonably be expected to have resource and delivery implications for the Fund. We do however note that the minutes of the 15 September 2020 Committee meeting indicate that the Committee requested that an item on the McCloud judgement be added to the forward plan and it is reflected in the 2021-24 version of the report however it lacks detail on what activity the Fund is planning and when.
- the 2021-24 Business Plan includes statistics from 31 March 2021 and the asset allocation as at 31 December 2020 without being clear on if or how this information is pertinent to the Fund's activities over the period covered by the Plan.
- it does not consider how resources and staffing levels relate to the volume of work expected, noting that there is no assessment of whether these will be sufficient given the Plan does not mention a number of key legislative developments which could add materially to the workload of administration staff (e.g. Goodwin Case).
- there is no indication of when the Plan was developed or approved, nor when it might be reviewed, this information should be added to the Business Plan.

We recommend extending the current business plan to include the following areas, all of which should be considered in the context of the agreed strategies/aims of the Fund:

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

The Plan should also acknowledge that it may need to be revised mid-year, for example, if new legislation is passed or a particular task is deferred for a particular reason. We recommend that the Committee is provided with regular updates on progress against the business plan, which can be presented at a high level, and which in turn will help them to consider if it does need to be reviewed or realigned.

Performance Measurement

2021 Findings: Retains a 😐 neutral rating, some improvements made but a number of recommendations set out below

2019 analysis

In the 2019 review this area was rated 😐 neutral, although some improvement had been made relative to the 2016 review via regular inclusion of Key Performance Indicators (KPIs) in Committee papers covering mainly administration as well as updates on funding and governance matters.

2021 review

We note that a significant backlog of deferred benefits cases was identified within the KPI reporting to the Committee and steps are being taken to rectify this via the appointment of Hymans Robertson. This suggests a slightly greater focus on data quality which is a positive step.

The papers for the 8 December 2020 Committee meeting include a log of breaches of the law, although there do not appear to have been any reports to the Regulator. We note that the deferred backlog has now been added to the breaches log and we would recommend that officers continue to consider areas that in breach and which should be recorded in the log.

There is still little evidence of consideration of wider developments affecting the Fund, such as the Regulator's proposed new consolidated Code of Practice, the SAB's Good Governance Review nor legislative changes such as McCloud within the key papers. In addition, we also note that whilst the Committee had asked for the Forward Plan to be updated in include reference to the McCloud judgement at the September 2020 meeting, given its potential implications for administration workloads, there was no mention of this having been done nor brought back to the December meeting. Further, whilst McCloud does feature in the risk register included within the papers considered at the December 2020 Committee meeting, there is no evidence from the minutes that this was discussed during the meeting.

Our earlier recommendations from the 2019 review which remain in place, are as follows:

- administration and communications updates should be a standing item on the Committee agenda with monitoring information aligned to the objectives within the Fund's administration and communications strategies, noting the provision of the Regulator's Code of Practice 14 that "schemes should have policies and processes that monitor data on an ongoing basis to ensure it is accurate and complete" and the expectation that all public service pensions schemes should have a data improvement plan in place. (We note from the Governance Action Plan that a data improvement plan will be considered by the Committee at their September 2021 meeting.)

Performance Measurement

CIPFA guidance – Pension Committee, Pension Board and Senior Officers should ensure monitoring of aims and objectives and legal requirements is taking place

TPR guidance – Monitor progress against the Scheme's objectives and goals[3]

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

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

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[3] TPR 21st Century Trustee - https://www.thepensionsregulator.gov.uk/en/trustees/21st-century-trusteeship/3,-d-,-clear-purpose-and-strategy-

- the Pension Committee, Pension Board and officers should consider the CIPFA guidance "Administration in the LGPS: a guide for pensions authorities"[4] which sets out information to help decision makers in the LGPS to better understand how they can oversee the delivery and quality of administration and communications within their administering authorities, with a view to identifying where improvements may be needed; this CIPFA guidance is consistent with expectations of TPR.
- the Administering Authority reviews its wider monitoring arrangements to ensure all of the Fund's aims and objectives, as articulated in the key strategies and policies, are subject to ongoing monitoring at appropriate timescales. We would expect this to include areas such as:
  - regular reporting of turnaround times and more qualitative measures in relation to the performance targets set out in the administration strategy
  - more regular consideration of funding matters, such as funding levels, employer covenants and cash-flows, specifically focussed on the key objectives of the funding strategy statement
  - monitoring progress against the Fund's budget including expected income and expenditure
  - monitoring of key tasks included within the business plan.

Risk Management

As this area was rated ☺ (good) in the 2019 Report we have not focused on this area as part of this further review as requested by the Fund. We have made a key observation about resourcing and risks relating to that as set out below.

Impact of changes in resources and impact of increasing workloads

A number of senior officers involved in the management of the Fund have left the Council, including the Section 151 officer. We understand that this has caused some problems and delays with securing sign off of pension Fund initiatives such as contract extensions and is causing concern for officers in terms of signatories for official activity. Whilst the impact of COVID-19 will not have helped, the Administering Authority should consider whether the lack of progress in some areas is, at least in part, due to a lack of resource, noting there remain a number of vacancies. The Administering Authority should maintain a proactive and vigilant approach to monitoring the impact of changes in resources and the impact of increases in workload, as well as considering succession planning, to mitigate the risks on the administration and management of the scheme. In particular greater strategic leadership on resourcing issues is recommended to support Fund Officers who are managing resourcing challenges.

[4] Guidance is free and can be found at https://www.cipfa.org/policy-and-guidance/reports/administration-in-the-lgps

Decisions – Do you have effective decision making?

In this section we consider whether the Fund has (i) and appropriate governance structure, (ii) people with the appropriate level of knowledge and skills and (iii) people with the appropriate behaviours needed to make governance effective.

Appropriate governance structure

There is no one 'correct' governance structure. The table to the right sets out the structure an Administering Authority should have. These elements are considered in this section.

😐 Formal Governance Documentation

This was rated 😐 (neutral) in our 2019 analysis due to the Constitution not accurately reflecting the role of the Local Pension Board. The Governance Action Plan taken to the December 2020 Committee meeting suggests changes were due by June 2020, this then appears to have been delayed to January 2021 and again until June 2021 and the reason for the delay is not clear given a paper was issued to the March 2021 Committee. We are not aware that the wording of Part 3 of the Constitution has been amended despite some changes having been made to that document in February 2021.

😐 Clearly documented Scheme of Delegation

This was rated 😐 (neutral) in our 2019 analysis due to the lack of clarity regarding delegations to officers. However, we note that the Pension Committee's Terms of Reference were updated in March 2020 to provide that all matters not explicitly reserved to the Committee (or Council) are delegated to Director of Finance Investment and Risk and Section 151 Officer who may delegate aspects to other officers and advisers within the scope of the Regulations. We would have anticipated greater detail regarding the delegation to the Director of Finance Investment and Risk and Section 151 Officer and **recommend** this area is reviewed in the next update to the constitution.

😐 Appropriate representation

This was rated 😐 (neutral) in our 2019 analysis due to the lack of any employer representatives on the Committee. This does not appear on the Governance Action Plan although we note that at their meeting on 11 February 2020 the Committee resolved that *An item to give consideration to representation and voting rights would be added to the Pension Committee's work programme*. Despite this action we cannot see a record of further discussion taking place and it doesn't appear on the latest Business Plan shared with the Committee in May 2021.

Administering Authority's structure should:

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

As part of this review we were asked to assess the turnover of membership on the Pension Committee and Pension Board and any impact that may have on the governance of the Fund. The changes at the Committee included the replacement of the Chair during 2020 by a new member on the Committee, although we understand that Cllr Pelling has been re-installed as Chair from May 2021 and Cllr Kabir is no longer on the Committee and has moved to the Board. We also understand that the Vice-Chair of the Committee has resigned and been replaced by a new member on the Committee. There also appears to be one vacancy with only 7 Cllrs currently listed as being Committee members. We have noted that 9 changes in Committee membership have taken place since 2015/16. Whilst some degree of change amongst Committee membership is inevitable, particularly given the local election cycle, given the wider issues at the Council with the Section 114 notice (albeit that has now been withdrawn) and loss of many senior officers, ensuring as much continuity as possible in relation to the management of the Fund should be a priority. We would also **recommend** that any new Committee members are given timely induction training to ensure they can constructively contribute to the management of the Fund as soon as possible.

In terms of Board membership, that has appeared reasonable stable during the period, but we did learn that the role of Employer Representatives from Croydon Council changed.

Perhaps the more concerning aspect of this turnover on both the Committee and Board is that Officers were not regularly informed or updated by the Council's political offices of the changes being made or provided with details of the new members on the Board or Committee in a timely way with individuals being revealed at meetings. This makes good governance outcomes more difficult to achieve and we would recommend that relevant individuals within the appropriate teams in the Council are reminded of the responsibility placed on members of the Committee and Board.

😐 London CIV related governance

In our 2019 report we reviewed whether the Fund's governance arrangements had evolved to meet the needs of asset pooling with the London CIV. From what we have reviewed as part of our work we noted that:

Governance structure:

- We recommended that the Administering Authority update their constitution to reflect the changes to the London CIV introduced in June 2018 by revoking delegation to the Pensions CIV Sectoral Joint Committee and provide written evidence to London Councils that this had been actioned. In March 2021 the Committee received a paper setting out these changes would be made however on reviewing the latest Constitution this remains outstanding and appears to have been delayed.

Reporting to the Committee and Board, wider information and engagement:

London CIV

The Fund, alongside other London Borough Funds is a member of the London Collective Investment Vehicle (CIV) since 2014.

- There appears to be a good level of reporting to the Board on CIV related activity by Officers. As part of the review we haven't seen all reports to Committee as these are likely in part B which haven't been supplied.
- In January 2020, the Head of Pensions and Treasury described to the Board how a pause had been placed on developing a more detailed ESG Policy because of lack of a clarity on the relationship with London CIV. It is not clear from the information reviewed if this is now resolved.
- We note that in January 2021 the Board were informed that going forward, the Chair of the Pension Committee would be a representative on the stakeholder board and would report back on a regular basis with information from the CIV. We have not seen evidence of this reporting back to provide comment.
- In March 2021 the Committee reviewed a paper with details about information sharing between the London CIV and its governance bodies to ensure appropriate information is being provided to the officers, Pension Committee and Pension Board and there is appropriate engagement. It referred to London CIV agreeing and putting its new client engagement approach in place. It also stated that the CIV is currently actively engaging with shareholders as to the information required and the format in which it is presented. A commitment to update the Committee and discuss this further was made at that meeting. Given the proposals from the CIV's governance review are almost 3 years old it would seem appropriate for the Fund to ensure the London CIV progress this speedily.

We **recommend** that the governance arrangements are formally adopted in the Administering Authority's Constitution as soon as possible. The Board and Committee should ensure they are assured on areas of reporting, information and engagement from the London CIV in particular in the areas noted above. We have not seen evidence of clear reporting back to the Committee from representatives attending CIV meetings and we would recommend this is reviewed to ensure adequate reporting is in place.

😐 Good quality (Committee and Board) administration

This was rated 😐 (neutral) in our 2019 review in part due to a number of supplemental papers being issued to the Committee which might indicate that these reports were not available within the required five working days before the Committee. We note that supplemental papers were issued for the January, March, September and December 2020 and March and May 2021 Committee meetings as well as October 2020 and January 2021 Board meetings. We **recommend** investigating the reasons for this and encourage this to be minimised in the future. It is possible that this indicates a resourcing issue within the pensions team. We also note that there was no meeting in between March and September 2020, and we assume the cancellation of two Board meetings and one Committee meeting was due to the COVID-19 pandemic.

😐 Managing conflicts of interest

This was rated 😐 (neutral) in our 2019 report on the grounds that there were concerns regarding potential conflicts of interest that had arisen in decisions made by that Committee and that politics appear to have an influence on decisions. Our conclusion was that this was an area that could be improved upon, particularly in relation to potential conflicts of interest that are Fund specific and would not therefore be highlighted through the Council's arrangements in the Code of Conduct.

Whilst not a legal requirement, our 2019 report also encouraged the Administering Authority to review the existing Board policy and expand it to apply to wider Fund management including the Committee. This Fund-specific policy would outline how conflicts of interest will be managed and dealt with at a Fund level. It should be noted that one of the recommendations from the Scheme Advisory Board's final Good Governance report[5] published in February 2021, is that *Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance*.

The policy provided by officers appears to include all the points listed in the right hand box. However, the policy has not been approved or considered by the Pension Committee (despite it saying it was approved on 17 March 2020) Officers explained that the draft report can only go to Committee / Board when cleared by senior officers and other directorates. It is not clear what other directorates need to consider a Fund based policy and why this has been delayed. We **recommend** this is addressed promptly and the Policy is put forward for consideration by the Board and Committee as soon as possible.

Fund-specific policy

We suggest that a Fund-specific policy could include reference to

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

One example which we felt important to call out in respect of potential or perceived conflict of interest is the decision in principle to allow the future transfer of properties leased to Croydon Affordable Homes and Croydon Affordable Tenures. We understand that this was considered by the Pension Committee on the 21 November 2018 but in the light of changed circumstances is being currently being reviewed with a paper being considered at the most recent Committee meeting on 25 May 2021. We are not reviewing the merits of this decision in principle but rather calling out the perception of conflict of interest in terms of members' fiduciary duty to the Fund as opposed to the Council as a participating employer (with funding obligations to the Fund).

We would **recommend** that there should be clear rationale for continuing with the proposal, particularly in the light of the advice received from Fund officers and Committee members should ensure they are confident they have no actual or perceived conflict and that this is being adequately managed and fully transparent to the Board and to other Fund stakeholders. The Committee may also wish to consider whether to commission updated guidance from their investment and actuarial advisers before finalising their decision.

In addition, we **recommend** that the Conflict of Interest policy is complemented by periodical training in relation to Fund specific conflicts of interest and that such training is compulsory for new Committee and Board members as well as Fund officers.

[5] https://lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf

Skills and knowledge

Pension Committee – requirements

The current requirements relating to training Pension Committee members and of LGPS Funds are included in the following:

- CIPFA Knowledge and Skills Framework – Elected representatives and non-executives in the Public Sector (2010)*
- CIPFA Knowledge and Skills Framework – Public Sector Pensions Practitioners (2010)*
- CIPFA Code of Practice on public sector pensions finance knowledge and skills (2013)*

In 2016 CIPFA issued Investment Pooling Governance Principles for LGPS Administering Authorities and incorporated additional competencies relating to the introduction of pooling in the LGPS. These competencies (or alternatives) should be integrated into knowledge and skills policies and these competencies should be achieved and maintained going forward.

*Aon has been working with CIPFA to refresh their knowledge and skills framework and Code and updated documents are expected to be published shortly. The Fund should, in due course, ensure it is complying with these new items of CIPFA guidance.

In January 2018 there was the introduction of Markets in Financial Instruments Directive (MiFID II) where the Fund, as a collective, must be able to demonstrate sufficient expertise, experience and knowledge to satisfy financial institutions that it is capable of making investment decisions and understanding the nature of potential risks. This requires that levels of expertise, experience and knowledge are maintained to satisfy the MiFID II requirements.

In addition, SAB's Guidance and the Pensions Regulator's Code of Practice No 14, (albeit currently focussed on Local Pension Board knowledge and skills legal requirements[6]), highlight the need for the Administering Authority to have appropriate policies and procedures in place to ensure a high level of knowledge and skills. The recent Scheme Advisory Board's Good Governance Review also recommends that there is a requirement in LGPS guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

Pensions Board – requirements

The Public Service Pensions Act 2013 requires Pensions Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

Good Governance

A critical element of good governance is the need for those managing the Fund to have the appropriate level of knowledge and skills.

[6] The recent TPR consultation on a new Single Code refers to governing bodies which includes Pension Committees. It's not clear at time of writing what exact TPR requirements will be when the Code takes effect, but it could be expected that from a best practice perspective any requirements in the area of knowledge and skills will also apply to the Pension Committee.

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

These requirements have been incorporated and expanded on within TPR's Code of Practice 14: Governance and Administration of Public Service Pension Schemes which is expected to become a new Single Code later in 2021. The Board should ensure a review of the requirements of the new TPR Code when it is published to ensure compliance with all areas including relating to the area of knowledge and skills[5].

☺ Clearly articulated knowledge and skills requirements in a Fund policy

2019 analysis

This area was rated 😐 (neutral) in the 2019 report since although the Administering Authority had formally adopted the CIPFA Frameworks and Code, there was no formal Training Policy. We recommended that the Administering Authority developed and published a policy setting out its policy and approach to training, including the following:

2021 review

A Knowledge and Skills/Training Policy was approved by the Pension Committee on 17 March 2020. This is supplemental to the updated Pension Board Training Policy which was approved by the Board on 17 October 2019. We would expect reference to who the policy applies to, to be references and to induction training in but it is not evident. There are also some small points of detail such as the delegated officer being listed as both the Director of Finance, Investment and Risk (Section 151) and the Chief Finance Officer. We **recommend** this Policy is reviewed to ensure it reflects all expected areas and for consistency.

😐 Regularly review whether knowledge aspirations are being met

2019 analysis

This area was rated 😐 (neutral) in the 2019 report since the training logs did not provide an overall assessment against the CIPFA knowledge and skills framework to allow one to understand whether Committee members have had appropriate training in the required competencies. It was also not possible to determine, where members are expected to attend training but have failed to do so.

2021 review

We do observe a huge amount of work has been undertaken by Officers to obtain and record training activity which is a positive development. However, the information is a little difficult to follow in relation to whether all members have attended mandatory sessions.

We understand that members of the Committee and Board complete an annual competency self-assessment matrix to highlight gaps in in skills or areas for further development and provide details of any training undertaken which is then informed to inform the following years training plan. We have not done an assessment of this exercise nor whether training has been a standing item on all Board and Committee agendas as this is outside the scope of this review.

Training Policy

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

😐 **Acquiring training**

This area is newly added for the 2021 report. We noted that at the February 2020 meeting the Committee acknowledged concern about the turnover of members and the risk that posed in terms of undermining the expertise of the Committee and that it would be highlighted in the Council by the Group Whip for Administration. In recent discussions with Officers that issue was restated in that training requirements are greater and more challenging given the changes to the Committee in particular. Furthermore, we note that the Knowledge and Skills/Training Policy approved in March 2020 lacks detail on the approach to induction training for new members.

We **recommend** that induction training requirements are clearly set out in your Policy and that this is explained and facilitated for all new members upon joining the Committee and Board. The role of Committee members needs to be clearly communicated to new members to ensure they understand their Administering Authority role. As stated in the Good Governance Review "A pension committee member should put aside political considerations, act in the interest of all employers and members and act within a regulatory framework"[7].

Behaviour

😐 **General Behaviour**

Behavioural elements should be aligned with the General Principles of Public Life which are adopted by the London Borough of Croydon as part of their members' Code of Conduct. These principles are:

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

and they also apply to co-opted members.

Given the range and volume of items needing to be covered at meetings there is always a risk that decisions are made by Pension Committee without full and appropriate discussion, debate and challenge. Equally there is a risk that too much time can be spent on matters of little importance/value.

This area was rated 😐 neutral in our 2019 report. Given the reduced scope of this review, which has meant we have not observed any Board or Committee meetings, and nor have we carried out an effectiveness questionnaire, we are not in a position to really comment on whether this has improved since the 2019 exercise. From informal discussions we were

Good Governance

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

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

7 https://www.lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf

made aware that during Committee meetings not all papers are introduced by Officers and this is something we would recommend is rectified going forward to ensure each agenda item is clearly explained with opportunity for questions and discussion.

We would continue to encourage all Committee members to be mindful of their overriding fiduciary responsibility and recommend training on the legal responsibilities of the Committee, particularly the fiduciary responsibilities to scheme members. We also repeat our previous recommendation that all members of the Board are encouraged to actively participate in meetings to aid the Board in its role. On a more positive note, from the agenda items at meetings it does seem that more time is being spent focussing on the long term objectives of the Fund and how they will be achieved. If so, this would represent an improvement relative to the 2019 review.

😐 **Brief assessment of the 2019 Action Plan**

As part of the scope for this update report to the 2019 review we were asked to provide a brief assessment of the action plan that the Fund have followed that review to understand progress, identifying if any resource or business planning issues exist.

Progress:

- It is clear that a significant amount of work by Officers has taken place on the actions from the 2019 review with oversight from the Board and Committee. Throughout this report we have highlighted progress in various areas. In summary there are some policies that need attention including the Conflict of Interest and Discretionary Policy and a Data Improvement Plan needs to be taken forward.
- Attention needs to be given to reporting information on the Fund website and we understand resource issues have caused problems in this area, the Board and Committee should seek to address this.
- We note that there have been some cancelled meetings due to the COVID-19 pandemic which has impacted progress of the actions.

Resources:

- From conversations with Officers we understand resources have been constrained which appears to be in part due to COVID-19. This is understandable given the unusual circumstances. The more concerning issue is that Officers are being required to address Council business which is impacting on their ability to progress with Fund activity, this appears to be across different areas of the team including Finance and Governance.
- We understand that work arising from Croydon Council's voluntary severance scheme has also placed an extraordinary demand on the pension administration team to provide retirement estimates with almost 200 estimates provided in January 2021.
- The Administering Authority has successfully filled the remaining vacancies for a Senior Pension Officer and Pension Support Officer but there have been further resignations in May at Senior Pension Officer and Pension Officer level and we understand that the Administering

Authority will seek to fill all of these roles through further recruitment exercise.

- The recommendation from the Good Governance review from the Scheme Advisory Board is that the LGPS Senior Officer will be responsible for the delivery of the LGPS function and must be able to ensure that they run an operation that is sufficiently resourced. Senior officers within the Council with responsibility for pensions alongside senior officers in the Fund, should start to consider how well the Fund would be able to adapt to potential new requirements for a new dedicated LGPS Senior Officer "who is responsible for the delivery of all LGPS related activity for that fund".
- The Board and Committee should ensure appropriate consideration is being given to how to support the existing team through additional resources alongside recruitment. The Fund would benefit from greater strategic leadership on resourcing issues to support Fund Officers who are managing resourcing challenges.
- The Administering Authority should maintain a proactive and vigilant approach to monitoring the impact of changes in resources and the impact of increases in workload, as well as considering succession planning, to mitigate the risks on the administration and management of the scheme.

Business Planning:

- We would strongly recommend that a more detailed Business Plan with priorities and key actions is prepared to ensure there is more detailed consideration of the resources required. This will align with one of the recommendations from the Good Governance review which expects that Business Plans will support Funds in assessing resource requirements (including staff recruitment, procurement and other specialist services).

Further information

Appendix A – Governance Framework

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

Aon Governance Framework

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

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

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

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

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

Table 1 – Aon governance framework

Direction – What are you trying to achieve?	
Legislation and guidance	The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.
Strategies and policies	The Fund's strategies and policies should clearly set out the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies should: ▪ be wide ranging covering all key areas including funding, finance, investments, administration, communications and governance itself ▪ be clearly articulated, to provide a framework within which those managing the Fund are able to operate ▪ provide the focus for all future decisions and plans ▪ be agreed by those responsible for governing the Fund.
Delivery – How do you meet your aims?	
Business Planning	Each Fund should have a business plan, setting out required activities in the forthcoming period. Those activities: ▪ should be driven by the Fund's strategies and policies ▪ will include activities driven by changes in overriding legislation.
Performance Measurement	Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should: ▪ demonstrate whether the Fund's aims are being achieved ▪ cover the full range of key areas (e.g. investments, finance, funding, governance, communications and administration) ▪ demonstrate whether the Fund's business plan is being achieved ▪ be updated in accordance with appropriate timescales ▪ be presented in a manner that is easy to follow and understandable to those governing the Fund ▪ assist in identifying changes to the Fund's business plan, strategies, polices and aims.
Risk Management	Effective risk management is critical to minimise the impact and/or probability of unfortunate events and to maximise the realisation of opportunities. It should be: ▪ aligned with the Fund's aims ▪ a key consideration in decision making ▪ systematic or structured ▪ an integral part of the Administering Authority's processes and procedures on a daily basis.
Decisions – Do you have effective decision making?	
Governance structure	There is no one 'correct' governance structure. The Administering Authority's structure should: ▪ have clear terms of reference ▪ have a clearly documented scheme of delegation ▪ allow decision making at the appropriate level

	▪ allow quick decision making where appropriate ▪ include appropriate representation from stakeholders ▪ ensure there is sufficient diversity of thought/approach amongst those tasked with making decisions ▪ involve well-presented information/reports ▪ allow sufficient time for discussion where necessary ▪ have good quality (committee) administration (e.g. issuing papers in good time) ▪ involve a process for managing conflicts ▪ provide transparency to stakeholders where appropriate.
Behaviour	A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should: ▪ have a high level of attendance at meetings and training ▪ demonstrate integrity in relation to their Fund role ▪ be engaged and provide appropriate challenge ▪ be accountable for the decisions made ▪ highlight any potential conflicts they may have ▪ for a Chairperson, manage the meetings fairly without any bias to individuals or self and enable all attendees to express their views or opinions openly ▪ prepare adequately for meetings.
Skills and knowledge	A critical element is the need for those managing the Fund to have the appropriate level of knowledge and skills. Administering Authorities should: ▪ clearly articulate the knowledge and skills requirements in a Fund policy ▪ provide ongoing training in an effective and suitable manner to meet those requirements ▪ regularly review whether knowledge aspirations are being met ▪ ensure they rely appropriately on officers and advisers to provide expert knowledge.

Appendix B – Reference Material

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

LB of Croydon Pension Fund

- Updated Governance Action Plan (18 February 2021)
- Investment Strategy Statement (ISS) (effective from September 2018)
- Funding Strategy Statement (FSS) (effective from April 2020)
- Governance Policy and Compliance Statement (September 2019)
- Communications Policy (September 2019)
- Administration Strategy Statement (July 2017)
- Constitution of the London Borough of Croydon Council (version March 2021)
  - Terms of Reference Pension Committee
  - Terms of Reference Local Pension Board
- Risk Management Policy (March 2020)
- Local Pension Board Training Policy (October 2019)
- Knowledge and Skills / Training Policy (March 2020)
- Reporting Breaches of the Law Policy (September 2020)
- Breaches spreadsheet (provided February 2021)
- Conflict of Interest Policy (March 2020) [not clear if this is an approved policy or not]
- Croydon Council Policy Statement of Exercise of Discretionary Powers (July 2014)
- Policy Statement - Mandatory Administrative Authority Discretions London Borough of Croydon (draft)
- Training log and training report summary (provided February 2021)
- Annual Report and Accounts (Draft) 2019/20
- Actuarial valuation report as at 31 March 2019 (dated 31 March 2020)
- Pensions Committee meeting papers between 17 September 2019 to 25 May 2021
- Pensions Board meeting papers between 17 October 2019 to 14 January 2021

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EPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**London Borough of Croydon Pension Fund: Property Transfer Proposal.**
LEAD OFFICER:	**Richard Ennis, Interim Corporate Director of Resources (Section 151 Officer)**
CORPORATE PRIORITY/POLICY CONTEXT: **Sound Financial Management**: The Pension Committee is responsible for the investment strategy for the Pension Fund and ultimately for ensuring sufficient assets are available to meet the liabilities of the Local Government Pension Scheme.	
FINANCIAL SUMMARY: This proposal has implications for the Council and the Pension Fund and will impact on the level of contributions required of the Council.	

1. RECOMMENDATIONS

1.1 The Committee is asked to recommend that the decision of Full Council of 28th January 2019, involving transfer of properties into the Pension Fund, be rescinded.

2. EXECUTIVE SUMMARY

2.1 This report sets out the argument for rescinding the decision to take forward a proposal to transfer properties into the Pension Fund.

2.2 Since the proposal was first developed the issues relating to this decision have changed; the Croydon Scheme's funding situation has improved and the view shared by officers and advisors, both the Scheme Actuary and the Investment Advisor, is that this proposal is no longer appropriate to the current circumstances. The investment advisor's views are set out in paragraph 3.5. They flag up a number of risks, including the fact that there is not an allowance in the Fund's investment strategies for this proposal. The Scheme Actuary's considerations are set out in paragraph 3.6. Their view is that this proposal creates unnecessary increased complexity and risk and so the Actuary does not support this proposal. It is the view of officers and advisors that this proposal is no longer appropriate and is a sub-optimal response to the need to efficiently manage contributions and thus the proposal is not supported.

3 DETAIL

3.1 Previous reports presented to this Committee have described this proposal in detail, together with the steps needed to deliver it and have given an idea of the complexity of this proposal and the risks involved. These reports are listed in the background papers below and Members should refer to them to refresh their understanding of this issue.

3.2 For a number of reasons this proposal no longer represents an appropriate course of action for the Pension Scheme nor for the Council as a Scheme Employer. These reasons include but are not limited to the fact that the funding situation for the Croydon Scheme has significantly improved (and there is a paper on this agenda from the Scheme Actuary that goes into more detail on this). Fundamentally this is an asset allocation issue and this proposal does not match the allocation policy set out in the Council's Investment Strategy Statement. There is no allowance for this in the agreed policy. In short this proposal is not supported by the Fund's advisors. Therefore the Committee advises the Council to rescind its earlier decision.

3.3 The report 'London Borough of Croydon Pension Fund: Property Transfer Proposal Revisited' was presented to the Pensions Committee on 25th May 2021 and discussed at length although not adopted. That report described the Property Transfer Proposal in detail.

3.4 This complex proposal was developed in order to alleviate pressures on the Council's finances and this solution is now not appropriate and indeed sub-optimal. A funding review is set out by the Scheme Actuary in a report elsewhere on this agenda.

3.5 The Pensions Fund's professional, independent investment advisors, considered this proposal and highlighted a number of inherent risks. Officers are of the view that considering those risks in the light of an improved funding situation and other options to achieve the same outcome, this proposal is no longer viable. The intention of this proposal is to enable the Scheme to effectively manage contribution rates. The conclusion of officers set out in this report is that this is no longer the case.

3.6 The Scheme Actuary have set out their position on this matter:

Property transfer arrangement

3.6.1 "We understand that the Council's proposed property transfer arrangement is still under consideration.

3.6.2 "We would recommend that the Fund considers the appropriateness of the property arrangement alongside any agreement to reduce the Council's employer contribution rate. In addition, we also continue to strongly recommend investment advice is sought on receiving the property arrangement asset (both to provide a valuation of the asset the Fund would receive and also how assets of this nature are allowed for in the Fund's current and future investment strategy).

3.6.3 “From an actuarial perspective, the property transfer arrangement increases the complexity and risk of the Council’s funding strategy. In particular, the proposed time period of 40 years at which the ownership would potentially transfer to the Fund far exceeds the Council’s current time horizon for funding strategy purposes (or any other LGPS Fund employer). As previously advised, if the Council is seeking to reduce its contributions to the Fund due to budgeting pressures, we would recommend that this is achieved via reduced cash employer contributions and within the current funding strategy framework. We will continue to provide advice and analytics to allow the Fund to consider the appropriate level of risk i.e. to set a long-term contribution plan that balances the need for savings versus the long-term solvency of the Fund.”

3.7 The proposals were agreed by Full Council on 28th January 2019:

“Council resolved to the break in the leases in 40 years, subject to all linked outstanding debt having been cleared, to transfer the 346 homes leased to Croydon Affordable Homes LLP and Croydon Affordable Tenures via an additional lease to the London Borough of Croydon Pension Fund, or any successor body, via a Pension Fund nominee company as part of meeting the Council’s liability to the Pension Fund as a scheme employer.”

3.8 The Pension Committee now recommend that the Council rescind that decision in order to allow officers freedom to explore other more efficient ways to manage the cost of the Scheme to the Council, as a Scheme Employer.

4 FINANCIAL CONSIDERATIONS

4.1 Financial considerations to follow.

5. OTHER CONSIDERATIONS

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

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 Legal considerations to follow.

CONTACT OFFICER:

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

APPENDICES:

None.

BACKGROUND DOCUMENTS:

There are a number of key supporting documents that Members should refer to in order to fully understand the context of this decision and the subsequent recommendation to set aside this decision.

London Borough of Croydon Pension Fund: Property Transfer Proposal Revisited. Report to the Pensions Committee on 25th May 2021.

London Borough of Croydon Pension Fund: Property Transfer Proposal. Report to the Pensions Committee, 5 June 2018.

Croydon Council property transfer proposal, January 2018. Hymans Robertson

Advice to the Council in respect of a future transfer of assets to its Pension Fund, November 2018, Eversheds Sutherland International LLP **(exempt under Schedule 12A paragraph 5 Local Government Act 1972.**

London Borough of Croydon Pension Fund: Property Transfer Proposal. Report to the Pensions Committee, 21 November 2018.

REPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**Pension Fund Governance: the Admission Policy, the Bulk Transfer Policy and the Policy for Employers Leaving the Fund**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. **RECOMMENDATION**

The Committee are asked to:

1.1 Consider and agree the "Admissions Policy", "Bulk Transfer Policy" and the "Policy for Employers Leaving the Fund" as attached as appendices A, B and C respectively.

2. EXECUTIVE SUMMARY

2.1 This Report explains the rationale for the Committee to agree an "Admissions Policy", "Bulk Transfer Policy" and a "Policy for Employers Leaving the Fund" in its role as administering authority and recommends these documents to the Committee for approval accordingly.

3 DETAIL

3.1 In accordance with Schedule 2 of the Local Government Pension Scheme Regulations 2013 (as amended) membership of the Scheme as administered by the Council is allowed for two types of employer – "Scheme Employers" and "Admission Bodies."

3.2 "Scheme Employers," such as the Council and academy trusts, must provide automatic admission into the Scheme for all their eligible employees.

3.3 "Admission Bodies" which, subject to strict conditions, provide services or assets to a Scheme employer, can provide access to the Scheme through an admission agreement.

3.4 New employers can choose not to seek membership of the Scheme but they need to offer employees transferred from the Scheme, membership of a certified "broadly comparable" pension scheme.

3.5 The review of the Fund's Governance arrangements recommended that the Committee:

- *Consider whether to introduce admission and bulk transfer policies, to provide greater detail and expand on some of the areas in the Funding Strategy Statement (FSS); and*
- *Update the "Policy for employer leaving the Fund" in line with exit credit*

legislation.

3.6 A bulk transfer is the transfer of a group of members from one pension scheme (the transferring scheme) to another (the receiving scheme). The transferring scheme will make a transfer payment to the receiving scheme, covering all of the transferring members. The transferring members will cease to be entitled to benefits in the transferring scheme and will become entitled to benefits under the receiving scheme.

3.7 Appendix A sets out the recommended Admission Policy.

The purpose of this policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to other employers in the Fund is identified, minimised, and managed accordingly. The policy also sets out the Fund's default position in relation to the admission of new employers. This will enable consistency of requirement across all employers.

While it is possible for a prospective new employer to request alternatives, any deviation from the stated default position would have to ensure no risk to other scheme employers and will be at the discretion of the Fund to agree.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. The Fund's discretions are detailed within the policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement
- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

Appendix A sets out the recommended basis for Admission Bodies to be granted access to the Scheme subject to conditions including:

- Accepting the standard admission agreement;
- Making contributions to the Fund as certified by the Scheme Actuary;
- Complying with any bond or guarantee requirements; and
- Meeting appropriate actuarial and other professional costs as required.

Previously the Fund has not had an Admissions Policy. This has made it difficult to achieve consistency in admission requirements across all scheme employers. Contractual agreements between the Council as letting authority and the employer have been made around fixed rate contributions and underwriting of liabilities without consideration of how the Fund is reimbursed. This impacts on staff time in lengthy negotiations and increased legal costs associated with the admission process. It causes delays in finalising admissions which has implications for the employees involved. Additionally it impacts on the funding position as any unpaid liabilities are dealt with by increasing employer contributions for the remaining scheme employers.

3.8 Appendix B sets out the recommended Bulk transfers Policy

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the Fund in prescribed circumstances.

The Fund's objectives related to this policy are as follows:

- transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- bulk transfers received must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary

When considering any circumstances where bulk transfer provisions might apply, however, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007) and non-statutory New Fair Deal requirements.

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding transfers (including bulk transfers) to and from the scheme, and include the following:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement;
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value;
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment must be granted their request. For members with non-Club accrued rights the LGPS Fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

Appendix B is the recommended basis for the bulk transfer of staff into and out of the Scheme subject to various different circumstances including:

- Transfers between schemes with actuarially equivalent benefits (Club schemes);
- Transfers between broadly comparable schemes; and
- Inter fund transfers (transfers between Local Government Pension Schemes).

Previously the Fund has not had a Bulk Transfers Policy. The new Policy will ensure consistency of practice across all bulk transfer cases, ensuring compliance with regulatory requirements detailed in this report. This will provide protection for both members' benefits and the financial position of the Fund.

3.9 An admission agreement terminates if the employer ceases to be an admission body or the last active members leave employment or opt out of the Fund.

Appendix C is a recommended updated "Policy for Employers Leaving the Fund" in which the main features of the financial arrangements are described in detail. The existing policy was created in 2014. Since then the Funding Strategy Statement has been updated to take account of exit credit amendments and this needs to be reflected in the Cessation Policy.

This policy details the methodology for calculation and payment of any deficit or refund of surplus on leaving the Fund, which supplements the Funding Strategy Statement ("FSS"). It applies independently from any risk-sharing which has been agreed between a Scheme Employer and an Admission Body.

When considering any circumstances where cessation occurs, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007) and non-statutory New Fair Deal requirements.

The Local Government Pension Scheme Regulations 2013 as amended ("the 2013 Regulations") outline the general framework for employees and employers participating in the Local Government Pension Scheme in England and Wales. The regulations that are relevant to employers leaving the Fund are as follows;

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a Scheme Employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates and Adjustments Certificate to be amended to show the revised contributions due from the Exiting Employer

- Regulation 64 (2) – where an employing authority ceases to be a Scheme Employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the Exit Date. Further, it requires the Rates and Adjustments Certificate to be amended to show the Exit Payment due from the Exiting Employer or, the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the Administering Authority must determine the amount of an Exit Credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
  a) Notify its intention to make a determination to-
     (i) The Exiting Employer and any other body that has provided a guarantee to the Exiting Employer
     (ii) The Scheme Employer, where the Exiting Employer is a body that participated in the Scheme as a result of an admission agreement
  b) Pay the amount determined to that Exiting Employer within six months of the Exit Date, or such longer time as the Administering Authority and the Exiting Employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any Exit Credit, the Administering Authority must have regard to the following factors-
  a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
  b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  c) Any representations to the Administering Authority made by the Exiting Employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the Exiting Employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate Scheme Employer or remaining Fund employers may be amended.

- Regulation 64 (4) – where it is believed a Scheme Employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the Exit Payment that will be due.

- Regulation 64 (5) – following the payment of an Exit Payment to the Fund, no further payments are due to the Fund from the Exiting Employer.

- Regulation 64 (7A-7G) – the Administering Authority may enter into a written Deferred Debt Agreement, allowing the employer to have Deferred Employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the Administering Authority may set out a policy on spreading Exit Payments.

In addition to the 2013 Regulations summarised above, the Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

These regulations relate to all employers in the Fund including the Council in its role as employer.
The Policy has been prepared on the basis of the following key principles:

- it is the Fund's policy that the determination of any surplus or deficit on termination should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future to towards meeting the past service liabilities of current and former employees of employers leaving the Fund;

- the Fund's preferred approach is to request the full payment of any Exit Debt (Exit Payment), which is calculated by the Actuary on the basis set out in the Funding Strategy Statement ("FSS"). This would extinguish any liability to the Fund by the Exiting Employer;

- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the Exiting Employer in determining arrangements for the recovery of the Exit Debt.

- The Fund's default position is that pass-through provision will not be enabled although specific circumstances concerning Multi-Academy Trusts are detailed within the Policy.

- If, in exceptional circumstances, a ceasing employer wishes to enter into discussions around pass-through provision, staff time involved on the Fund side will be charged at the rate defined within the Administration Strategy Statement. Additionally any agreement on this will be at the discretion of the administering authority and will need to be authorised by the relevant person as laid down in the scheme of delegation detailed in the governance and compliance statement as required under regulation 55.

Previously issues with pass-through arrangements have caused delays in finalising cessations. It has been difficult at times to establish which entity has liability for debts on cessation resulting in risk to the financial position of the Fund. In this updated policy the Fund's position is to carry out a cessation valuation for all admitted bodies ceasing participation in the Fund, in line with the 'Contractor Exit Basis' from the most recent Formal Valuation of the Fund (updated for market conditions at the Exit Date).

The exiting contractor will be liable for paying over any deficit to the Fund directly. The contractor will have to seek recovery of any sums covered under the separate contractual agreements between themselves and the letting authority outside of the cessation process. This will protect the Fund's financial position.

These policies have been drawn up in conjunction with Hymans as the independent pensions advisors with regard to regulatory requirements on behalf of the pension fund and in compliance with the relevant regulations and it is on that basis that they are being recommended to members for approval.

These policies provide a framework to protect members' benefits and the financial well-being of the Fund, as well as separating the role of the Council as employer or letting authority from its role as administering authority.

3.10 In line with its fiduciary responsibility to the Fund, the Committee are recommended to agree:

(i)The Admissions Policy (Appendix A);
(ii) the Bulk Transfer Policy (Appendix B)
(iii) the Policy for Employers Leaving the Fund (Appendix C)

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

4.1 There are no financial considerations arising from this report.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

5 CONSULTATION

5.1 Officers have fully consulted with the Pension Fund's advisers in preparing 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 Local Government Pension Scheme Regulations 2013/2356 ("the Regulations") govern such matters as admission to the Local Government Pension Scheme (LGPS), transfers and leaving the pension fund.

6.2 In seeking to establish polices governing the above referenced areas, the Council must ensure that it complies with the relevant provisions within the Regulations and shall have regard to statutory guidance. Non-statutory guidance has also been published with covers these areas and regard ought also to be had to such non-statutory guidance.

6.3 Regulations 3 to 8 of the Regulations set out the rules for eligibility for membership and the different categories of member. Part 2 of the Regulations sets out provisions relating to the administration of the Scheme. Regulations 96 to 103 set out provisions relating to transfers between funds. Schedule 2 to the

Regulations sets out who can be Scheme employers and makes provision relating to admission agreements between employers who are not listed within the Schedule and administering authorities and Schedule 3 to the Regulations sets out who must maintain a fund for the Scheme, and is thus an administering authority and contains provision identifying who is the appropriate administering authority for the employees of any particular Scheme employer.

6.4 Regulation 64 makes provision in relation to requirements on employers who leave the LGPS and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014/525, under regulation 25A gives the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time.

6.5 Under provisions in the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) [SI 2006/246], the pay, and terms and conditions of employment for transferred employees are protected, preventing these entitlements from being changed without agreement. The Transfer of Employment (Pension Protection) Regulations 2005 [SI 2005/649] covers the pension and contribution arrangements for employees to which a TUPE transfer applies.

6.6 Section 101 and 102 of the Local Government Act 2003 makes provision for staff transfer matters generally and in relation to pensions in particular (section 102) and provides that Directions may be made by the Secretary of State in this regard with which the Council needs to comply. Best Value Authorities Staff Transfer (Pensions) Direction 2007 has been made by the Secretary of State under this authority and provides that a Best Value authority must secure pension protection for each TUPE transferring employee, which must be the same as, broadly comparable to, or better than, those they had a right to acquire prior to the transfer.

6.7 Where relevant, regard should also be had to the non-statutory New Fair Deal guidance issued by the Government Actuaries Department in October 2013 which applies to applies to central government departments, agencies, the NHS, certain maintained schools (including academies) and any other parts of the public sector under the control of government ministers, where staff are eligible to be members of a public service pension scheme. The new policy applies when such staff move from the public sector to an independent contractor by way of a transfer to which TUPE applies or when such staff move by way of a non voluntary transfer to a public service mutual or to other new models of public service delivery. The reformed policy generally does not apply to staff transfers from local authorities and other best value authorities (as listed in section 1 of the Local Government Act 1999).The New Fair Deal sets out how pensions' issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services, including how this pertains to pensions.

6.8 Further legal consideration will be required by the Fund on the implementation of the recommendations in the report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law and

Deputy Monitoring Officer on behalf of the Interim Director of Law and Governance.

7. HUMAN RESOURCES IMPACT

7.1 Human Resources advisors, alongside pensions and legal teams, will need to ensure the new policy is applied correctly when such staff move from the council to an independent contractor by way of a transfer to which TUPE applies, or when such staff move by way of a non-voluntary transfer to a public service mutual, or other models of public service delivery

Approved by: Dean Shoesmith, Interim Chief People Officer

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

8. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

9. CRIME AND DISORDER REDUCTION IMPACT

9.1 There are no crime and disorder impacts arising from this report.

10. DATA PROTECTION IMPLICATIONS

10.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

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

NO

Approved by: Nigel Cook, Head of Pensions and Treasury

CONTACT OFFICER:

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

APPENDICES:

Appendix A – Admissions Policy
Appendix B – Bulk Transfer Policy
Appendix C – Policy for Employers Leaving the Fund

BACKGROUND DOCUMENTS:

None.

London Borough of Croydon Pension Fund

Admissions Policy

December 2021

Review Due December 2024

Contents

Admission Policy

Admissions policy context

1 Introduction

It is essential for the Administering Authority to establish its fundamental approach to the risks involved in the admission of new employers to the fund.

The purpose of this policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to other employers in the Fund is identified, minimised, and managed accordingly. As well as providing appropriate guidance and policy decisions on specific key elements this document also sets out the Fund's default position in relation to the admission of new employers. While it is possible for a prospective new employer to request alternatives, any deviation from the stated default position would have to ensure no risk to other scheme employers and will be at the discretion of the Fund to agree to.

This Policy is effective from DD/MMYYYY. It has been approved by the London Borough of Croydon Pension Fund Committee on DD/MMYYYY,

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employers leaving the Fund.

2 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013, ("LGPS Regulations") sets out the various types of employer that can participate in the scheme and the different requirements that apply to each. These can be summarised as:

Bodies listed in Part 1 to Schedule 2 – the county council, district and borough councils, further education colleges, academies, police and fire services. These bodies must provide access to the LGPS to their employees (assuming they are not eligible to be members of other pension schemes)

Bodies listed in Part 2 to Schedule 2 – often referred to as designating employers, as they have the right to decide who of their employees are eligible to join the scheme. Includes town and parish councils, as well as entities connected to bodies in Part 1 above. If a relevant designation is made the Administering Authority cannot refuse entry into the scheme in respect of that employer.

Bodies listed in part 3 to schedule 2 – admission bodies, who can apply to participate in the scheme. Admission bodies can encompass a variety of different types of employer. These are –

- a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
- a body, to the funds of which a Scheme employer contributes;
- a body representative of any Scheme employers, or local authorities or officers of local authorities;
- a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

    - the transfer of the service or assets by means of a contract or other arrangement (i.e. outsourcing),
    - a direction made under section 15 of the Local Government Act 1999,
    - directions made under section 497A of the Education Act 1996;
- a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement
- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements

3 Interaction with Funding Strategy Statement (FSS) and other documents

The FSS sets out high level policies in a number of areas relating to the treatment of scheme employers. The key areas covered by the FSS relating to admission of new employers are: -

- Responsibilities of the key parties;
- Calculation of funding positions and individual employer contribution rates;
- Link to investment policy set out in the Investment Strategy Statement; and
- Key risks and controls.

The information contained with the FSS applies equally to admission bodies as to other participating employers within the Fund. This admissions policy, therefore, supplements the general policy of the Fund as set out in the FSS and should be read in conjunction with that document, together with its Bulk Transfer and Cessations Policies, Administration Strategy, Governance and Compliance Statement and Communications Policy.

4 Background

A scheme employer is responsible for any surplus or deficit arising during the period of participation in the Fund so that if or when that participation ceases, it is 100% funded. However, ultimately, if the scheme employer was to fail or cease to exist and any deficit cannot be met by the body or claimed from any bond, indemnity or guarantor (where appropriate), the liability will fall to other employers in the Fund (either the awarding authority on the failure of a service provider, any guarantor employer or all other employers, depending on the circumstances and the type of body). It is prudent therefore for the Fund to ensure any such risks are minimised and mitigated.

Although the risks may not be able to be eliminated completely, there are a number of options that can be considered to try and mitigate these risks. These are summarised below, with the policy position set out in Appendix 1:

Entry conditions – to what extent, if any, the Administering Authority can determine entry conditions for any new employer and the manner in which those applications will be considered and approved.

Requirements for a bond/indemnity or guarantor – understanding the risk that a new employer might place on the Fund, usually through underfunding on exit from the Fund, and the mitigations that can be put in place (in the form of a bond/indemnity or guarantor) to reduce or remove that risk.

Risk sharing – more often adopted with admission bodies, and while not changing the full cost of the pension benefits, the Administering Authority can decide its approach to the sharing of risk with an established sponsoring employer (e.g. fixed employer contribution rates, pooling the admission body with the scheme employer, etc.).

Allocating assets on entry – on admission each new employer will notionally be allocated assets in the Fund, from which time they will be tracked and employer contributions set with a view to achieving solvency should the employer leave the scheme. Depending on the type of employer concerned the Administering Authority will need to decide how that initial asset allocation should be handled (e.g. given assets equal to 100% of the liabilities transferred or required to take on a share of any funding deficit at the outset).

Contribution rates and other costs – the Administering Authority will need to decide how the initial contribution rate is set for any new scheme employers on joining the scheme. Decisions may also be required in relation to other costs, e.g. legal or actuarial costs, and how these may be passed onto employers.

Pooling – there may be circumstances where a new employer has strong links to an existing employer, or where there is homogeneity amongst certain groups of employers. In these circumstances there may be a desire on the part of the employers to share some of the pension risk, which can be achieved via a pooling agreement. In simple terms, this will allow the bodies to effectively be treated as if it were one employer. As a result, the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

Ongoing monitoring – it is important that monitoring of scheme employers is carried out throughout their term of participation and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be achieved via various methods, such as regular funding level reviews, risk assessments and requirements to notify the Administering Authority of any changes in circumstances.

Termination/exit requirements – one of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Under the terms of the LGPS Regulations a termination valuation is required to be carried out at the point a scheme employer ceases to participate (e.g. as a result of the last active member leaving or the termination of a contractual arrangement with another scheme employer) in order to ascertain the exit payment due in relation to any deficit or payable on account of a funding surplus or alternatively if any exit credit is due back to the ceasing employer as a result of a surplus existing.

Future cessations – When a scheme employer ceases to participate in the scheme its assets should be equal to its liabilities on an appropriate basis. In these circumstances, the Administering Authority may seek to increase or reduce the scheme employer’s contributions to the Fund in the period leading up to its expected exit (if known) in order to target a position where the employer's assets are equal to its liabilities on an appropriate basis. To a limited degree, this can also reduce any overfunding at exit.

Basis of termination valuation – as with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. For example, the range of assumptions can include the ongoing funding basis, a gilts basis and a "buy-out" basis.

Payment of cessation debt or exit credit – When the fund actuary carries out a cessation valuation, they are also required to certify the contributions due to the Fund, or any surplus that might need to be refunded to the exiting employer. While the LGPS regulations do not specify whether or not the payment of any deficit should be paid as a lump sum or whether it is paid in instalments the Fund's default position is that it would expect payment as a single lump sum. There is provision within the LGPS Regulations that clarifies what should happen if it is not possible to recover the cessation payment, for example due to the exiting employer going into liquidation and no assets being available, spreading the recovery of the costs across all remaining scheme employers with active members.

5 Statement of Principles

The Administering Authority's policy is drafted on the basis of the following key principles:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to set clear principles and ensure there is a consistency of requirement for employers in respect of all admissions and cessations to and from the Croydon Pension Fund
- to ensure employers recognise the impact of their participation in the Local Government Pension Scheme, helping them manage their pension liabilities as they accrue and understanding the effect of those liabilities on the ongoing operation of their business;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

6 Default position

In formulating this Admissions Policy, the Administering Authority has set out its default position in relation to a number of key areas. These are set out below, as well as within the policy statements set out in Appendix 1.

7 Admission Agreement

The Fund has in place a standard Admission Agreement template for use for all employers wishing to be admitted to the Pension Fund.

The Fund's default position is that it will not amend its standard Admission Agreement template.

In all cases it is assumed that an Admission Body accepts and agrees to meet the conditions of participation detailed within Croydon Pension Fund's standard Admission Agreement.

If, in exceptional circumstances, a prospective Admission Body wishes to enter into discussions around changing clauses within the template additional costs reflecting staff time involved on the Fund side may be charged to the Admission Body. This will be at the discretion of the Fund. Additionally any agreement on amendments will be at the discretion of the Administering Authority and will need to be authorised by the relevant person as laid down in the scheme of delegation detailed in the Governance and Compliance Statement as required under regulation 55.

8 Risk sharing/pass-through

It will be at the discretion of the Fund to consider if it is willing to administer a risk sharing or pooling arrangements. In cases where this is considered acceptable, the approach should be documented separately from the admission agreement as well as the transfer agreement. Alternatively, letting scheme employers and admission bodies may operate risk sharing or pooling outside of the admission agreement by entering into a separate Side Agreement. While not necessarily a party to this side agreement, the Fund may treat the admission agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

9 Contributions

On admission to the scheme, the actuary will determine the employer contribution rate payable by the Admission or Scheduled Body. The employer contribution rate will be set in accordance with the Funding Strategy Statement. Contribution rates will be reviewed at formal triennial valuations; no additional charge to the employer will be made for this. In addition, the Croydon Pension Fund reserves the right to review contribution rates for Admitted or Scheduled Bodies more frequently, particularly within the final three years before the expected date of termination of the Admission Agreement. Any fees for actuarial valuation costs in respect of these reviews will be charged to the employer.

The employer must pay to the Pension Fund:

- The **full** employer contribution rate and any secondary lump sum deficit amount as determined by the fund actuary; Less any ill-health insurance reduction resulting from joining the Hymans plan*)

- All employee contributions payable;
- All APC amounts payable;
- Any other contributions required;
- Early and ill health retirement strain costs;
- Any other amounts specified within the admission agreement or regulatory requirements;
- Lump sums in relation to any early retirements or early payment of pension benefits;
- Reimbursement of the costs of the administering authoritiy or other body due to poor administration by the admission body;
- Actuarial, legal, administration and other justifiable costs to be paid by the admission body; and
- Any interest amounts due under the regulations.

Any reimbursement from the letting authority to the contractor regarding contractual agreements in connection with Pension arrangements will need to be dealt with outside of the Admission Agreement. The Pension Fund will not allow any variations in amounts payable to the Fund in any way. All payments due to the Pension Fund, including monthly employer percentage and lump sum deficit contributions will be payable by the Employer in full within regulatory requirements *.

*The Fund Actuary provides an ill health insurance scheme to indemnify employers against costs associated with member ill health benefits for which the employer is liable. If employers decide to take out this insurance with the Fund Actuary (this is an arrangement outside of the Pension Fund) there may be a percentage reduction applied to the employer rate contributions payable. This amount is decided by the Fund Actuary.

10 Bond/guarantee requirements

Bodies admitted under Paragraphs 1(a) to (c) and (e) of Part 3 of Schedule 2 to The Regulations must provide a guarantor considered by the Fund to be reliable and financially durable (generally only a local authority or central government department) or a bond/indemnity the Fund considers to have equivalent strength and coverage.

For bodies admitted under Paragraph 1(d) of Part 3 of Schedule 2 to The Regulations there is a preference for a bond or indemnity to be provided.

There is no requirement for a bond or guarantor to be provided for scheduled or designating employers.

If the contract relating to the Admission Body is extended it will be necessary for the bond or guarantee to be extended to cover the length of the new contract. This is the responsibility of the employer. Any legal or actuarial fees for reviewing amounts required and updating agreements will be payable by the Admission Body and Croydon Pension Fund will issue invoices accordingly. Additionally any associated administration costs on the part of the Administering Authority will be payable by the Admission Body as detailed in the Administration Strategy Policy

11 Costs

There will be a charge for the Fund Actuary valuation on admission and cessation for which the employer will be liable. There will be a charge for the Fund Legal Advisor for drawing up and getting the admission agreement and any Bond or Guarantee agreement signed off on admission for which the employer will be liable. These costs can vary according to the complexity and time involved in each case. The indicative amount will be notified to the employer at the time of application. The final cost will be notified to the employer on completion of the admission process and an invoice will be issued.

An administration fee will be payable by the Admission Body to the Pension Fund on completion of admission charged at the rate defined within the Administration Strategy Statement. This is in addition to the valuation and legal fees payable by the Admitted Body This needs to be as detailed in the admin strategy.

12 Discretions Policy

Under regulation 60

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

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

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

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

(d) 31 (award of additional pension),

and an Administering Authority must prepare such a statement in relation to the exercise of its functions under regulation 30(8) in cases where a former employer has ceased to be a Scheme employer.

(2) Each Scheme Employer must send a copy of its statement to each relevant Administering Authority before 1st July 2014 and must publish its statement.

(3) A body required to prepare a statement under paragraph (1) must-

(a) keep its statement under review; and

(b) make such revisions as are appropriate following a change in its policy.

(4) Before the expiry of a month beginning with the date any such revisions are made, each Scheme Employer must send a copy of its revised statement to each relevant Administering Authority, and must publish its statement as revised.

(5) In preparing, or reviewing and making revisions to its statement, a body required to prepare a statement under paragraph (1) must have regard to the extent to which the exercise of the functions mentioned in paragraph (1) in accordance with its policy could lead to a serious loss of confidence in the public service.

(6) In this regulation a relevant Administering Authority in relation to a Scheme employer, is any authority which is an appropriate Administering Authority for that employer's employees.

The Administering Authority will provide a template to the Admission Body for the purpose of documenting their policy in respect of mandatory discretions under the regulations. The Employer may choose to adopt the policy provisions as provided or decide on their own responses to the discretions for which policies are required. The Admission Body must provide the Administering Authority with a copy of their Discretions Policy on admission to the Fund and at any review of the policy and they must publish the policy.

13 Exiting the Fund

The Fund's approach to dealing with employers exiting the Fund, including the issue of deferred debt arrangements, issuance of suspension notices and the collection of exit debts and payment of surpluses on exit are set out in its FSS, complemented by its formal Cessation and Bulk Transfer Policies.

Where an employer is expecting its participation in the Fund to come to an end it is encouraged to open a dialogue with the Fund as early as possible, to commence planning for the termination. Where the Fund becomes aware of an employer's participation in the Fund ceasing it reserves the right to amend an employer's minimum contributions such that the value of the assets of the employer will be neither materially more nor materially less than its anticipated liabilities at the date it appears to the Fund that the employer will cease to be a participating employer.

14 Policies

The Administering Authority's policies in relation to the admission of new scheme employers are set out in Appendix 1.

Appendix 1 – Admissions Policy

The following table sets out a summary of the various scenarios that may exist for the admission of scheme employers into the Fund, along with its approach to their on-going monitoring and where appropriate their exit from the Fund.

	Scheduled bodies **(Part 1 of schedule 2)**	**Designating employers** **(Part 2 of schedule 2)**	**Admission bodies** **(Part 3 of schedule 2)**
Entry conditions and requirements of the Fund			
Entry conditions	All new Part 1 employers (inc. academies) must ensure Fund is aware of their creation. A designating employer should provide the Fund with a signed copy of its resolution, confirming who is eligible for membership of the Fund		Will consider applications from bodies: - - with links to a scheme employer; or - that provides services or assets on behalf of a scheme employer Agreements can be open or closed, so long as necessary protections are in place
Bond/indemnity/guarantor	Not applicable		Admission body to undertake risk assessment to the satisfaction of the administering authority (and scheme employer where seeking admission as a body under Par 1(d) to Part 3 of Schedule 2). Admission body to put in place a secure and financially durable bond to the satisfaction of the administering authority, or agree

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
			and alternative guarantor (generally with a scheme employer and/or government department). Documentary evidence of the bond or guarantee must be provided to the administering authority by the admission body. The level of risk must be reviewed and any associated security renewed on an annual basis
Risk sharing	Not applicable		The Fund's default position is that it will not be party to any risk sharing arrangements. Any such arrangements would not be included within the admission agreement and would be managed by the relevant parties; as far as the Fund is concerned the admitted body remains liable for the full contributions payable and it would be for them to recover monies detailed in contractual agreements directly from the letting authority. In order to protect the interests of the Fund, however, it would require sight of any risk sharing

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
			arrangements that have been put in place.
Approval	The Fund has no power to refuse participation of any new employer set up under Part 1 of schedule 2 and where the Fund is designated as the appropriate Fund for that employer. The Fund has no power to refuse participation of an employer under Part 2 of schedule 2, although it will require sight of a signed copy of the relevant resolution to confirm the employees eligible for participation in the scheme. All new employers will be reported to the Pension Committee and Pension Board for information only.		Fund officers to be responsible for ensuring prospective admission bodies meet the necessary criteria. Admission agreement template will generally be standard and non-negotiable Final decision to be reported to the Pension Committee and Pension Board for information only
Financial aspects of entry			
Asset allocation	Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the FSS. Academies may be pooled with other academies as part of a Multi Academy Trust (MAT). Where a new employer is created from an existing scheme employer the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer.		Dependent on type of admission body - For new service providers = 100% of past service liabilities - For all others – to be agreed on a case by case basis In all cases, based on Fund's on-going funding basis and tracked and

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
			adjusted during period of admission at each formal valuation
Investment strategy	Set for the Fund as a whole		
Contributions	Set in accordance with Funding Strategy Statement. Will be required to pay additional amounts (strain) in respect of: - non-ill health early retirements; - employer award of additional pension; and - additional costs incurred by administering authority resulting from employer poor performance. Ordinarily strain payments must to be made to the Fund within the year in which the strain cost was incurred.		
Other employer costs	May require payment of actuarial, legal and other justifiable costs incurred as a result of participation in the Fund, together with any additional costs incurred by administering authority including when resulting from an employer's poor performance		
Pooling	Ordinarily pooling will not be available. The only exception would be academies who can be pooled as part of a MAT.		Where it is believed to be advantageous and all parties agree the administering authority may agree to pooling with letting scheme employer
Employer monitoring			

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
On-going monitoring	The Fund reserves the right to review a scheme employer's funding position annually, or more frequently. Where it appears that liabilities have increased by more than expected at the last funding valuation the employer contribution rate may be subject to review during the inter-valuation period.		The Fund will ensure the ongoing assessment of risk related to each admitted body, to ensure the level of bond/indemnity cover remains appropriate. Employer contribution reviewed no less frequently than as part of formal valuations (inter-valuation may be undertaken if required if it appears liabilities have increased by more than allowed for at preceding formal valuation, or where the employer may become an exiting employer)
Cessation terms and requirements			
Termination requirements	The Fund will take legal advice on the appropriate triggers that might lead to termination of a scheme employer's participation in the fund (e.g. last active leaving)		
Future cessations	A provisional cessation valuation will be carried out as soon as the Fund becomes aware that a scheme employer may be exiting the scheme for whatever reason.		Carry out a "provisional" valuation as soon as Fund is aware of the likelihood of an employer exiting the Fund For an admission body the Fund reserves the right to undertake ongoing annual assessments where it becomes aware that the

	Scheduled bodies **(Part 1 of schedule 2)**	**Designating employers** **(Part 2 of schedule 2)**	**Admission bodies** **(Part 3 of schedule 2)**
			organisation may cease to participate in the Fund. Fund reserves the right to undertake exit valuation on a “least risk”/”gilts” basis to reduce on-going risk to remaining scheme employers
Basis of termination valuation	Valuation approach and assumptions set out in FSS and Cessation policy, requiring the scheme employer to make an appropriate exit debt payment immediately, or receive an exit credit.		
Suspension Notice	Will consider issuing a suspension notice for a period up to three years, where, in the reasonable opinion of the Fund, the exiting employer is likely to have one or more active members in relation to the Fund within the period specified in the suspension notice Fund will always seek to recover the exit payment due at the point no more active members exist		
Deferred Debt arrangements	Will be considered when their last active member leaves, on terms that the Fund deems appropriate, in accordance with its FSS.		
Exit debit/exit credit	To be considered in line with the Fund’s FSS. Exit debt usually collected as a single lump sum, although the Fund may consider the appropriateness of spreading over an extended period. Where applicable, exit credits will usually only be paid where the admission body is not participating in a risk sharing agreement.		

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London Borough of Croydon Pension Fund

Bulk transfer policy

December 2021

Review Due December 2024

Contents

Bulk Transfer Policy

1 Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the Fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

This Policy was approved by Croydon Pension Committee DD/MM/YYYY and is effective from DD/MM/YYYY

This Policy will be reviewed every 3 years in line with the review of the Funding Strategy Statement (FSS) or sooner following any legislative changes within the review period or applicable statutory guidance.

Aims and Objectives

The Fund's objectives related to this policy are as follows:

- transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- bulk transfers received must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case by case basis.

When considering any circumstances where bulk transfer provisions might apply, however, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007) and non-statutory New Fair Deal requirements.

1.1 Risks

These are specific risks relating to Bulk Transfers, including:

- Risk to the solvency of the Fund where the value of the payment in respect of bulk transfers in does not cover the corresponding liabilities transferred in.
- Risk to the solvency of the Fund where the value of the payment in respect of bulk transfers out exceeds the corresponding liabilities transferred out.

Regard should also be had to the Fund's Risk Register which is reported to Committee quarterly.

2 Bulk transfer circumstances

Bulk transfers into and out of the Fund can occur for a variety of reasons, namely:

- where an outsourcing arrangement is entered into and active scheme members leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the LGPS from a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (bought about by, for example, local government shared services, college mergers or multi academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding transfers (including bulk transfers) to and from the scheme, and include the following:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement;
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value;
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment must be granted their request. For members with non-Club accrued rights the LGPS Fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

3.1 Best Value authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all "Best Value Authorities" in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and

- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

3.2 Academies and Multi-Academy Trusts

New Fair Deal, introduced in October 2013, applies to academies and multi academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result it would not be expected the Fund would have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi academy trusts.

3.3 Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies), – who are not subject to the requirements of Best Value Direction or New Fair Deal - there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services, although any successful contractor is free to seek admission body status in the Fund, subject to complying with the Administering Authority's requirements (e.g. having a bond or guarantor in place).

The old Fair Deal policy may still apply to a specific staff transfer if permitted by the New Fair Deal policy or if outside the coverage of the New Fair Deal policy. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the Administering Authority would not expect to pay out more than individual cash equivalent transfer amounts, in accordance with appropriate Government Actuary Department (GAD) guidance.

4 Statement of Principles

This Statement of Principles covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- Where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits;

- Ordinarily the Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the value of the liabilities). The Fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer (e.g. the use of gilts where unsecured liabilities are being left behind, or where transfer terms are subject to commercial factors).
- Where a subset of an employer's membership is transferring (in or out), the Fund may consider an approach of calculating the bulk transfer payment as the sum of Cash Equivalent Transfer Values (CETV) for the members concerned, using Government Actuary's Department standard CETV factors;
- Where an entire employer is transferring in or out of the Fund the bulk transfers should equal the asset share of the employer in the transferring Fund regardless of whether this is greater or lesser than the value of past service liabilities for members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.
- Service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.

5 Notes to bulk transfer policy

For the avoidance of doubt, each bulk transfer is considered on a case-by-case basis alongside appropriate actuarial advice.

There may be situations where a transfer amount accepted in respect of a transfer in is less than is required to fully fund the transferred in benefits on the Fund's ongoing basis. In such cases the Fund reserves the right to require the receiving employer to fund this deficit (either by lump sum or increase in ongoing employer contributions) ahead of the next formal valuation.

Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.

For transfers out, in exceptional circumstances the Fund's policy allows for specific issues of the transferring employer (e.g. the cessation of the transferring scheme employer) to be taken into consideration at the discretion of the Administering Authority and will need to be authorised by the relevant person as laid down in the scheme of delegation detailed in the Governance and Compliance Statement as required under regulation 55.

5.1 Format of transfer payment

Ordinarily payment will be in cash, with delegation to the relevant person as laid down in the scheme of delegation detailed in the Governance and Compliance Statement as required under regulation 55 to agree alternative methods of paying this sum.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme. Staff time involved on the Fund side will be charged at the rate defined within the Administration Strategy Statement.

5.2 Impact on transferring employer

Any transfer of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring authority how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover this relative change in deficit, for example where the deficit is a large proportion of the total remaining notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

5.3 Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

5.4 Approval process

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether to pay or receive a bulk transfer.

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to.

5.5 Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

6 Policy Summary

The following tables set out a summary of the various scenarios for the transfer in to and out of the Fund, together with the Administering Authority's policies relating to bulk transfers. In the remainder of this section this Policy sets out the Administering Authority's policies in relation to a number of subsidiary areas associated with bulk transfers.

Scenario		Bulk transfer mechanism	Policy	Methodology
Machinery of Government from a Club Scheme	In	Club Memorandum (see below note)	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
	Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.

Scenario		Bulk transfer mechanism	Policy	Methodology
Broadly Comparable Scheme Or Machinery of Government where scheme is treated as a on-Club scheme	In	GAD guidance (see below link)	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transferring formulae.
	Out	< 2 members – GAD guidance	Cash Equivalent Transfer Values in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
		2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

<table>
<tr><th colspan="2">Scenario</th><th>Bulk transfer mechanism</th><th>Policy</th><th>Methodology</th></tr>
<tr><td rowspan="4">Inter-fund transfer (transfer between the Fund and another LGPS Fund)</td><td rowspan="2">In</td><td>< 10 members – GAD guidance</td><td>Cash equivalent transfer values in accordance with GAD guidance.</td><td>On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the Fund will award the member a pension credit on a day-for-day basis.</td></tr>
<tr><td>10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013</td><td>Where agreement can be reached, the Fund and the transferring Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, in general:

Actives only transferring (i.e. remaining members left behind):
Cash equivalent transfer values in accordance with GAD guidance using transferring fund’s actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV’s).

All members transferring (i.e. all actives, deferred and pensioners):
Receive all assets attributable to the membership within the transferring scheme.</td><td>The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual cash equivalent transfer values calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.

Pension credits will be awarded to the transferring members on a day-for-day basis.</td></tr>
<tr><td rowspan="2">Out</td><td>< 10 members – GAD guidance</td><td>Cash Equivalent Transfer Values in accordance with GAD guidance.</td><td>The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.</td></tr>
<tr><td>10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013</td><td>Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, in general:

Actives only transferring (i.e. remaining members left behind):
Cash equivalent transfer values in accordance with GAD guidance using transferring fund’s actual fund returns for roll-up to date of payment (rather than the interest applied for standard CETV’s).

All members transferring (i.e. all actives, deferred and pensioners):
Transfer all assets attributable to the membership to the receiving scheme.</td><td>The Fund's default policy is to offer a transfer value that is equal to the total of the individual cash equivalent transfer values calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.

Discretion exists to amend this to reflect specific circumstances of the situation.</td></tr>
</table>

Terms referred to:

- Club Memorandum - (document issued by the Cabinet Office describing arrangements for transferring accrued pension rights to and from schemes participating in the Public Sector Transfer Club)

  https://lgpsregs.org/timelineregs/UK%20Wide%20Guidance/PSTC-MemoMar2015.pdf

- Government Actuary Department (GAD) Guidance

  https://www.gov.uk/guidance/staff-transfers-public-service-pension-schemes#gad-staff-transfers

  https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/299397/LGPS_EW_Transfer_Guidance_2014_March_2014.pdf

- Cash Equivalent Transfer Value (CETV) The amount of the lump sum that will be required to provide an equivalent pension to the scheme pension at your retirement age. This lumps sum is then reduced (discounted) depending upon how far away from retirement that you are. The scheme makes various assumptions in order to calculate the Cash Equivalent Transfer Value.

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London Borough of Croydon Pension Fund

Policy for Employers Leaving the Fund

December 2021

Review Due December 2024

Contents

Policy for Employers Leaving the Fund

Introduction

This is the policy of the London Borough of Croydon Pension Fund ("the Fund") as regards the treatment of employers leaving the Fund. It has been prepared by the Administering Authority to the Fund, Croydon Council, in collaboration with the Fund's actuary, Hymans Robertson LLP.

When considering any circumstances where cessation occurs, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (e.g. the Best Value Staff Transfers (Pensions) Direction 2007) and non-statutory New Fair Deal requirements.

This policy details the methodology for calculation and payment of any deficit or refund of surplus on leaving the Fund, which supplements the Funding Strategy Statement ("FSS"). It applies independently from any risk-sharing which has been agreed between a Scheme Employer and an Admission Body.

This policy applies to all past, current and future employers participating in the Fund and is effective from DD/MM/YYYY. In exceptional circumstances, the Fund reserves the right to differ from the contents of this policy if the particular circumstances of an Exiting Employer mean that the application of this policy is not appropriate or goes against the spirit of the principles applied here.

This policy has been approved by the London Borough of Croydon Pension Fund Committee on DD/MM/YYYY.

1.1 Terminology

The following terms all have the same meaning as defined in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), as amended from time to time: Scheme Employer, Administering Authority, Exiting Employer, Exit Credit, Exit Date, Rates and Adjustments Certificate and Related Employer.

1.2 Aims

The aim of this Policy is to set out:

- the approach for the treatment and valuation of liabilities for employers leaving the Fund; and
- to outline the responsibilities of Exiting Employers, the Administering Authority, the Actuary and, where relevant, the original outsourcing Scheme Employer.

1.3 Regulatory Framework

The Local Government Pension Scheme Regulations 2013 as amended ("the 2013 Regulations") outline the general framework for employees and employers participating in the Local Government Pension Scheme in England and Wales. The regulations that are relevant to employers leaving the Fund are as follows;

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a Scheme Employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date.

Further, it requires the Rates and Adjustments Certificate to be amended to show the revised contributions due from the Exiting Employer

- Regulation 64 (2) – where an employing authority ceases to be a Scheme Employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the Exit Date. Further, it requires the Rates and Adjustments Certificate to be amended to show the Exit Payment due from the Exiting Employer or, the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the Administering Authority must determine the amount of an Exit Credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
    a) Notify its intention to make a determination to-
        (i) The Exiting Employer and any other body that has provided a guarantee to the Exiting Employer
        (ii) The Scheme Employer, where the Exiting Employer is a body that participated in the Scheme as a result of an admission agreement
    b) Pay the amount determined to that Exiting Employer within six months of the Exit Date, or such longer time as the Administering Authority and the Exiting Employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any Exit Credit, the Administering Authority must have regard to the following factors-
    a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
    b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
    c) Any representations to the Administering Authority made by the Exiting Employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
    d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the Exiting Employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate Scheme Employer or remaining Fund employers may be amended.

- Regulation 64 (4) – where it is believed a Scheme Employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the Exit Payment that will be due.

- Regulation 64 (5) – following the payment of an Exit Payment to the Fund, no further payments are due to the Fund from the Exiting Employer.

- Regulation 64 (7A-7G) – the Administering Authority may enter into a written Deferred Debt Agreement, allowing the employer to have Deferred Employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the Administering Authority may set out a policy on spreading Exit Payments.

In addition to the 2013 Regulations summarised above, the Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

These regulations relate to all employers in the Fund.

1.4 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employers leaving the Fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

2 Principles

2.1 Overriding Principles

The Policy has been prepared on the basis of the following key principles:

- it is the Fund's policy that the determination of any surplus or deficit on termination should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund;

- the Fund's preferred approach is to request the full payment of any Exit Debt (Exit Payment), which is calculated by the Actuary on the basis set out in the Funding Strategy Statement ("FSS"). This would extinguish any liability to the Fund by the Exiting Employer;

- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the Exiting Employer in determining arrangements for the recovery of the Exit Debt.

2.2 Interaction with Funding Policy

It is the Fund's policy that each employer is responsible for the funding of all Fund benefits of its own members, including current and previous employees. The FSS sets this out in more detail and addresses the issue of cross-subsidies between employers. While employer contributions may be pooled in the interests of stability and administrative ease for the purpose of Formal Funding Valuations, the individual funding position for each employer is tracked by the Actuary. Any cessation valuation will be carried out using assets and liabilities allocated to the employer at the last triennial valuation as a starting point. This position will be updated to allow for membership movements and market conditions as at the cessation date. The cessation valuation for any employer leaving a pool will be based on the funding position of the pool as a whole at the cessation date.

Note (j) of section 3.3 of the Funding Strategy Statement sets out funding policy for admission bodies leaving the Fund.

2.3 Principles for Determining Payment

The Administering Authority will determine the deficit / surplus attributable to the employer on cessation having taken actuarial advice.

If the Exiting Employer has an excess of assets over the liabilities, according to Scheme regulations, an Exit Credit may be payable to the employer. Any Exit Credit payable will take account of the Regulations noted in Section 1.3 and the Fund's Exit Credit Policy (included within note (j) of the FSS).

In each of the following scenarios, the cessation amount is crystallised. This means that once the Exit Debt or Exit Credit has been determined, this amount will not be reviewed in future to allow for future events such as market movements or demographic changes.

The funding bases currently in use for calculating cessation valuations are set out in the Pension Fund's Funding Strategy Statement. These bases may be updated or withdrawn at the discretion of the Administering Authority on the advice of the Actuary. They will be reviewed, as a minimum, at each Formal Valuation of the Pension Fund as part of the review of the FSS. The Administering Authority, on advice from the Actuary, will determine the most appropriate cessation basis for each case.

Contractors participating in the Fund under an admission agreement (previously referred to as Transferee Admission Bodies)

The Fund's policy is to carry out the cessation valuation for all admitted bodies ceasing participation in the Fund, in this situation, in line with the 'Contractor Exit Basis' from the most recent Formal Valuation of the Fund (updated for market conditions at the Exit Date). The Fund's default position is that pass-through* provision will not be enabled.

If, in exceptional circumstances, a ceasing employer wishes to enter into discussions around pass-through provision, staff time involved on the Fund side will be charged at the rate defined within the Administration Strategy Statement. Additionally any agreement on this will be at the discretion of the administering authority and will need to be authorised by the relevant person as laid down in the scheme of delegation detailed in the governance and compliance statement as required under regulation 55.

The contribution rate for the Scheme Employer who awarded the original contract may be amended on termination should there be any outstanding Exit Debt. This may occur if the certified Exit Debt due from the ceased employer has not been paid or any amount received from any bond in place has not been sufficient to meet the full Exit Debt.

In this case, the original Scheme Employer is the ultimate ‘guarantor’ for any legacy liabilities in respect of the Exiting Employer’s liabilities.

If the admission agreement is terminated earlier than the contract period set out in the agreement, then the Administering Authority reserves the right to perform the cessation valuation on an alternative basis as agreed with the original Scheme Employer.

All other employers (including Scheme Employers, Designated Bodies and other Admission Bodies)

a) *No Guarantor Exists*

In the case of an Exiting Employer where no guarantor exists, since the Regulations suggest that any unfunded liabilities (at the point of cessation or after the cessation date) should be met via increased contributions from all other employers in the Fund, the Administering Authority wishes to protect the interests of the other unconnected employers.

The cessation valuation in such a case will be carried out in line with the "Low Risk Exit Basis" (i.e. with an investment return assumption based on long term government bond yields with no allowance for outperformance on the Fund’s assets, and with an increased allowance for future mortality improvements above those adopted for the ongoing participation basis at the last actuarial valuation).

b) *Exiting employer has a guarantor*

If a Scheme Employer guarantor exists or if the Exiting Employer is able to obtain a legally binding guarantee from a Scheme Employer on cessation which states the guarantor is prepared to absorb the Exiting Employer’s responsibilities on an Ongoing Participation Basis, then the Actuary will calculate the cessation valuation using the Ongoing Participation Basis adopted at the last actuarial valuation (updated for market conditions). This approach is subject to the guarantor Scheme Employer being deemed by the Administering Authority to be sufficiently large and financially secure that the Exit Debt for the Exiting Employer is not material to the ongoing funding position of the guarantor Scheme Employer.

c) *Treatment of employers admitted with a fixed rate arrangement.*

If an employer enters into an arrangement regarding risk-sharing or pass-through with another Scheme Employer that is not reflected in the employer admission agreement, then a cessation amount will be calculated according to (a) or (b) above and charged to or credited to the Exiting Employer. The Exiting Employer will be entirely responsible for claiming from the other Scheme Employer any monies to which the Exiting Employer is entitled as a result of arrangements not reflected in the admission agreement.

3 Cessation Events

3.1 Current Cessations

An employer's participation in the Fund ceases when one of the following occur:

a) *Contractors participating in the Fund under an admission agreement (previously referred to as Transferee Admission Bodies ("TABs")).*

- A cessation event will occur when either a contract comes to a pre-arranged end date (the period of which will be defined in the admission agreement), a contract is terminated early, or the employer has no remaining active members in the Fund.

- Action will be taken by the Fund to determine the level of any Exit Debt owed by, or Exit Credit owed to, the Exiting Employer. The Fund will then seek to recover any Exit Debt from the Exiting Employer, bond holder or guarantor in place, or at its absolute discretion, fully or partially, pay out an Exit Credit.

- Regardless of the success of recovering any Exit Debt in respect of the Exiting Employer, or the amount of any Exit Credit refunded, all active, deferred and pensioner liabilities of the contractor will automatically transfer back to the letting employer, along with the notional value of assets held by the Exiting Employer.

- If the contract is re-let, a new admission agreement will be set-up between the letting employer and the new employer which may lead to some or all the original active members transferring from the letting employer to the new employer.

b) *Academies and Multi-Academy Trusts (MATs)*

- A cessation event will occur if a current Academy or Multi-Academy Trust ceases to exist as an entity or as an employer with the Fund.

- If the cessation event occurs due to an academy or MAT merging with or being taken over by another academy or MAT within the London Borough of Croydon Pension Fund, all active, deferred and pensioner liabilities from each of the merging entities will be combined, along with the notional value of assets held by the bodies concerned, and the responsibility for the payment of all current and future liabilities will become the responsibility of the newly merged entity. In these circumstances the Actuary, in consultation with the Fund, will determine the revised contribution rate relating to the newly merged entity.

- If the academy or MAT is split into more than one either new or existing employers within the London Borough of Croydon Pension Fund then the Actuary will split the notional assets and liabilities relating to all active, deferred and pensioner liabilities of the Exiting Employer between the employers which are inheriting responsibility for the ceasing academy or MAT . In consultation with the Administering Authority, the

Actuary will use their professional judgement to determine an appropriate and fair methodology for undertaking this split. Furthermore, the Actuary, in consultation with the Fund, will determine if payment of an Exit Debt or Exit Credit is required (notwithstanding the Administering Authority's absolute discretion on Exit Credits) or if these variations should be addressed as part of future employers' contributions.

- If the Fund is unable to recover any Exit Debt from an Academy or MAT then it will seek to recover the debt from the Department for Education (DfE) as outlined in the DfE's parliamentary minute from 2 July 2013.

- In all other circumstances, following the payment of any Exit Debt or the receipt of any Exit Credit, responsibility for all the remaining deferred and pensioner liabilities will be ring-fenced until the final liability ceases and then any residual surplus/deficit will be apportioned amongst all remaining active employers in the Fund, unless another Scheme Employer (or group of employers) provides a guarantee that requires them to inherit responsibility for the Exiting Employer's notional assets and liabilities.

c) *All other employers*

- A cessation event will typically occur due to an employer having no remaining active members in the Fund.

- Following payment of any Exit Debt or receipt of any Exit Credit, responsibility for all remaining deferred and pensioner liabilities will be shared amongst all remaining active employers in the Fund, unless another Scheme Employer (or group of employers) provides a guarantee that requires them to inherit responsibility for the Exiting Employer's notional assets and liabilities.

3.2 Suspending payment of exit amounts

At the absolute discretion of the Administering Authority, a suspension notice may be awarded to an Exiting Employer. This may be for a period of up to three years after the cessation event (the maximum period permitted by the Regulations). Any application for the Administering Authority to grant a suspension notice will normally only be considered if the following criteria apply;

- The employer can provide evidence that it is likely to admit one or more new active members to the Fund within the period of the suspension notice.

- The employer is not a closed Admitted Body, as under the existing admission agreement no new active members would be permitted to join the Fund.

- Any application for the Administering Authority to grant a suspension notice is made within three months of the cessation event.

The Administering Authority reserves the right to withdraw a suspension notice if it is of the opinion that the terms of any agreement to award a suspension notice are not being upheld by the employer.

If a suspension notice is awarded, the cessation valuation will be deferred until the earlier of 1) the end of suspension period or 2) the point at which the suspension notice is withdrawn (for any reason). If one or more new active members are admitted to the Fund, the employer's full participation in the Fund will resume, including the ongoing responsibility for historic liabilities. If no new active members are admitted to the Fund it will seek to recover any cessation debt as per 3.1.

During the period of any suspension notice, the employer must continue to make such contributions to the Fund as certified in the Rates and Adjustments certificate.

3.3 Future Cessations

If an employer is aware that it will be leaving the Fund in the future, it should alert the Administering Authority and request an indicative cessation valuation. This valuation report is chargeable to the employer.

If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate. Alternatively, if this calculation indicates a deficit position is likely then the Actuary will be able to advise of any required increase in contributions over the remaining period of membership. In either case, the Administering Authority has discretion over the funding basis to be used for this calculation.

If an employer participates in a pool, it should review the relevant pooling policy to determine action required in respect of leaving the pool.

3.4 Historic cessations

As required under Regulation 25A of the Transitional Regulations, the Administering Authority reserve the right to levy a cessation debt on employers who have ceased participation in the Fund under previous LGPS regulations, but for whom a cessation valuation was not carried out at the time. In such circumstances, the appropriate approach would be taken in line with the contents of this policy document depending on the relevant circumstances of each case.

4 Payment of any Exit Debt

If the actuary determines that there is a deficit at the cessation date, the Exiting Employer is required to make an Exit Debt payment to the Pension Fund. The Administering Authority will advise the Exiting Employer of the amount required and payment arrangements. The Fund's policy is for any Exit Debt on cessation to be recovered through a single lump sum payment to the Fund, where possible. If the Fund fails to recover the payment of the deficit from the Exiting Employer, the Administering Authority will pursue any bond, indemnity provider or guarantor for payment where appropriate.

Generally, the outgoing employer will not be exposed to interest rate, investment or other funding risks after the cessation date. The final Exit Debt may be calculated by the addition of interest at the level of the base rate between the cessation date and the final payment date(s). Exceptions to this may be made where the Fund is not advised in a timely manner of the cessation date of the Exiting Employer.

The Administering Authority may consider permitting an Exiting Employer to spread the payment over an agreed period, where it considers that this does not pose a material risk to the solvency of the Fund. In addition, in some circumstances, the Administering Authority may consider a Deferred Debt Agreement (DDA) rather than crystallising an Exit Debt. Details of the Fund's policies on spreading an exit debt and DDAs are contained within the Funding Strategy Statement.

5 Payment of Exit Credit

If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the Administering Authority will act in accordance with the Exit Credit Policy (included within note (j) of the Funding Strategy Statement).. If payment is required, the Administering Authority will advise the Exiting Employer of the amount due to be repaid. However, in order to meet the six month timeframe, the Administering Authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The Administering Authority is unable to make any Exit Credit payment until it has received all data requested.

At the time this policy was produced, the Fund has been informed by HMRC that Exit Credits are not subject to tax, however all Exiting Employers must seek their own advice on the tax and accounting treatment of any Exit Credit.

6 Ongoing Management of Liabilities after Settlement of Cessation Debts

It is the policy of the Fund to avoid 'orphaned' liabilities and assets which can occur in the following situations:

a) The Exiting Employer no longer exists; or

b) The Exiting Employer still exists, but they have paid off a cessation valuation in full, so there is no further recourse to them.

In these situations, the issue remains of where the former employer's liabilities (which don't cease until the last pensioner dies) and assets reside within the Fund's unitised structure. The approach for dealing with this is as follows:

a) Where there is a guarantor which is also an employer within the Fund, it is the Fund's policy that they will be pooled with the legacy (deferred and pensioner) liabilities and assets for the purposes of future actuarial valuations. This can also be a way of spreading the cost of any remaining deficit that the guarantor may be picking up, because the liabilities (and assets) become merged with the guarantor's existing liabilities/assets for valuation and contribution rate purposes.

b) Where there is no guarantor, another existing employer within the Fund, such as the original ceding employer (in the case of old Community Admission Bodies) or some other organisation with close links to the former employer will be sought to similarly absorb the legacy (deferred and pensioner) liabilities and assets.

c) If no other employer within the Fund has links to the former employer, the former employer's assets will be ring-fenced until the last pensioner dies and any emerging deficit or surplus will be allocated across all current employers in the Fund at that date in proportion to their liabilities.

7 Process

7.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other Scheme Employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment);

- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency; and

- provide all other information and data requirements as requested by the Administering Authority which is relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

7.2 Responsibilities of Administering Authority

The Administering Authority will:

- gather information as required, including, but not limited to, the following:

    - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation;

    - complete membership data for the outgoing employer and identify changes since the previous formal valuation; and

    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).

- identify the party that will be responsible for the employer’s deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.);

- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation;

- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus;

- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership; an
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

7.3 Responsibilities of the Actuary

Following commission of a cessation valuation by the Administering Authority, the Fund Actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy;
- provide actuarial advice to the Administering Authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation; and
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

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REPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**Pension Fund Annual Report 2019/2020**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. **RECOMMENDATION**

The Committee are asked to consider and note the draft Croydon Council Pension Fund Annual Report 2019/2020.

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2. EXECUTIVE SUMMARY

2.1 This report asks the Committee to consider and note the draft Croydon Council Pension Fund Annual Report 2019/2020 (Appendix I).

3 DETAIL

3.1 Attached to this report as appendix I is the draft Croydon Council Pension Fund Annual Report 2019/2020.

3.2 According to the Pension Scheme regulations the audited Pension Fund Accounts and Annual Report are required to be completed and audited in the summer following the end of each financial year. However, in view of the Covid-19 pandemic the regulations in respect of the completion for 2019/20 were relaxed with the deadline for the preparation of the financial statements extended up to 31 August 2020 and the date for the audit to be completed to 30 November 2020. Due to further issues arising from the pandemic and matters pertaining to the Council's Accounts the audit has not yet been completed.

3.3 However, the Auditors have indicated that they will not be requiring any significant adjustments to the Accounts and that they expect to provide an unqualified audit opinion.

3.4 When the Audit Findings Report is finalised the Annual Report will be considered alongside it by the General Purposes and Audit Committee as constituting those charged with governance under the regulatory framework.

4 CONSULTATION

4.1 Relevant Officers of the Council have been consulted.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no direct financial or direct risk implications

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that the Pension Fund is subject to a statutory requirement to provide a defined benefit pension to scheme members. The Pensions Committee is responsible for agreeing and monitoring the investment strategy and formally reviewing the Fund's governance and administration of the Fund.

6.2 Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires each administering authority to prepare an annual report for the Pension Fund. The regulations prescribe that the following should be included in the annual report:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;
- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures;
- the extent to which the fund has achieved its required performance levels set out in its pension administration strategy; and
- the current version of the funding strategy statement, investment strategy statement and communications policy and any other information the authority considers appropriate.

6.3 This paper serves that purpose and forms part of the strategy and governance reviewing process.

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

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Dean Shoesmith, Interim Chief People Officer

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11 DATA PROTECTION IMPLICATIONS

11.1 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: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

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CONTACT OFFICER:

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

APPENDICES:

Appendix I - Croydon Council Pension Fund Annual Report 2019/2020
Appendix II – Croydon Pension Fund Accounts 2019/2020

BACKGROUND DOCUMENTS:

None.

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CROYDON PENSION FUND
Annual Report 2019/20

31 March 2020

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Foreword by Chair of Pension Committee

As the new Chair of the Pension Committee I am delighted that one of my first duties is to be able to present to you this Annual Report of the Croydon Pension Fund.

I would like to start by thanking my predecessor, Councillor Andrew Pelling, for his hard work and diligence in chairing the Committee for the last four years.

The Fund has over 100 employers, 28,000 members and assets of £1.26bn. Over the last five years it has grown on average by around 8% per year with its assets now worth £400m more than they were in March 2015.

However, as you will all understand, these basic figures hide the tumultuous events surrounding the Covid-19 pandemic over the last few months. Suffice it to say that, had our year-end been 31 December 2019, I would have been reporting a valuation of around £1.35bn. However our job is not to think of what might have been but to manage the situation as it is. In this regard we are all pleased to report the results of the 2019 Actuarial Valuation which advised us that our funding level had increased over the last three years from 73% to 88%. By making substantial “deficit recovery” payments the Fund is moving towards achieving its objective of a 100% funding level within 20 years.

For most of the year the lengthy rally in global equity markets continued but its effect was negated by the unique circumstances in the last quarter which contributed to losses in our main equities investments of £22m. We also suffered a small loss in our property portfolio. However, these losses were offset by gains in the private equity, infrastructure and fixed interest funds.

The most significant investment decision made by the Committee during the year was the liquidation of the emerging markets fund. We did this because the team responsible for managing the fund on behalf of Janus Henderson left the company and the replacement fund we were offered did not meet our responsible investment aspirations. At year end the receipts had not yet been re-invested awaiting the availability of a new equities mandate offered by the London CIV.

The disinvestment from Janus Henderson and the market losses within the rest of the equities portfolio resulted in the holdings being reduced to 36% of the total Fund, 1% outside its target range. Some of the receipts from the Private Equity investments were re-invested in Infrastructure. All other investment classes were within their target range but several towards the upper end. In line with the developing investment strategy these issues will be addressed early in the new year.

Whilst we remain committed to the “pooling” concept no new investment opportunities became available and the liquidation of the Janus Henderson fund and market movements reduced our assets invested within the scope of the London CIV to 43.5%. We shall continue to be an active member of the CIV and look at all opportunities they make available. However, we shall only invest when we are satisfied that managers and asset classes offered are likely to assist in the achievement of our objectives.

As usual, the Committee have been busy addressing a number of very important investment, service and valuation issues. At each of our meetings we have considered investment performance and have taken a particular interest in the infrastructure mandates and the implications of Environmental Social and Governance policies. We have appreciated both the verbal and written advice provided by consultants from WM Mercer. To help to develop the relationship between the Fund and its investment managers several meetings were held between Members and managers during the year.

At our last meeting of the previous year we considered the options, risks, costs and value of currency hedging in a Brexit environment. Early in the year a currency hedge was put in place for the Legal and General Equity Fund and it has worked in the Fund's favour.

Also, at each Committee meeting we have reviewed the services provided to the Fund members including those offered to them by the self-service facility. The Committee has a particular wish to ensure that the best possible service is provided to members of the Fund, when they or their dependants need advice and support in connection with retirement and death benefits. We are also very conscious of allocating sufficient staffing resources to provide the service.

Last year the Committee noted with pleasure that Aon Hewitt had been retained as the Fund's Governance Adviser and at our February meeting spent the majority of the time discussing their review of the governance of the Fund. The review highlights areas of good practice and also recommends potential areas for improvement. The Committee took on board all the recommendations of the review and agreed an action plan, progress against which will be monitored at future meetings.

Notwithstanding the effects of the pandemic, careful monitoring and reviews of developments, diversification across assets, regions and investment styles, and sound governance arrangements have all contributed to a steadily improving outlook for the Fund. In addition to discharging its fiduciary responsibility to stakeholders the Committee is committed to ensuring that sound Environmental, Social and Governance practices are embedded in the investment strategy, specifically in respect of tobacco and a desire to move towards carbon neutrality. In November the Committee received a training presentation entitled "Investing in a Time of Climate Crisis." I am pleased to see in this Report the extensive paragraphs on our responsible investment strategy.

The Committee also ensures that the Fund operates in accordance with the Local Government Pension Scheme Regulations and relevant Guidance and adopts sound policies and procedures for the administration of the Fund.

I would like to acknowledge the very helpful contribution in assisting the Committee made by the Pension Board and, particularly, by its Chair, Mike Ellsmore. Mr Ellsmore regularly attends our Committee and Councillor Pelling did likewise with the Board. I understand that both were made welcome and invited to speak on matters of mutual interest and I hope to carry on this tradition.

Special thanks are in order for the Vice-Chair, Councillor Simon Hall, for his support and substantive role in the Committee's affairs as the Cabinet Member for Finance and Resources.

I will conclude by also offering my thanks to the many professional officers and advisers listed within the pages of this Report who have contributed to ensuring the continued success of our Fund. Croydon is most fortunate to have such professional and experienced officers in its Pensions team.

I hope you find our Report an interesting read.

Humayun Kabir, Chair, London Borough of Croydon Pension Committee

A OVERALL FUND MANAGEMENT

1 Scheme Management and Advisers

Introduction

Under the Local Government Pension Scheme Regulations 2013 (“the Regulations”) the London Borough of Croydon (“the Council”) is specified as an Administering Authority for the Local Government Pension Scheme (“the Scheme”). As such, the Council is required to maintain a pension fund (“the Fund”). The Council acts as Scheme manager with responsibility for managing the Fund’s assets, collecting employer and employee contributions, paying pension benefits as they fall due and various other aspects of administration.

Under the Regulations the Council must prepare a “fund annual report” which contains a number of specified features. This Report has been prepared in accordance with the CIPFA publication “preparing the annual report – Guidance for Local Government Pension Scheme Funds 2019 Edition” which has been adopted by the Ministry for Housing, Communities and Local Government as statutory guidance for the purposes of the Regulations.

Pension Committee

The Council discharges its duties through the Pension Committee (“the Committee”). The role of the Committee is

- To ensure that the Fund is properly operated in accordance with the Regulations, all other relevant legislation and best practice as advised by The Pensions Regulator, including financial, governance and administrative matters;

- 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; and

- 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 arrangements, scheme administration, and external advisers;
    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 Administrating 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.

The Committee comprises eight voting Members of the Council, one voting Pensioner Representative and two non-voting members being a Pensioner Representative and a Trade Union Representative.

The members of the Committee for the 2019/20 Municipal Year were:

Councillors:	
Chair:	Andrew Pelling
Vice-Chair:	Simon Hall
	Simon Brew
	Robert Canning
	Luke Clancy
	Clive Fraser
	Patricia Hay-Justice
	Yvette Hopley
Substitutes	Jamie Audsley, Sherwan Chowdhury, Pat Clouder, Patsy Cummings, Steve Hollands, Vidhi Mohan Robert Ward
Other members:	
Pensioners' Representatives:	Gilli Driver (Voting)
	Peter Howard (Non-voting)
Trade Union Representative:	Charles Quaye (Non-voting)

The Committee is supported by officers and independent external advisers.

Pension Board

As Administering Authority, the Council is required to establish a Local Pension Board to assist them with securing compliance with the Regulations and other legislation relating to the governance and administration of the Scheme and requirements imposed in relation to the Scheme by The Pensions Regulator.

During 2019/20 the members of the Board were:

Independent Chair:	Michael Ellsmore
Employer Representatives:	Richard Elliott
	Cllr Jerry Fitzpatrick
	Daniel Pyke
Member Representatives:	Teresa Fritz
	Ava Payne
	Daniel Whickman

Board members, (excluding the Chair), have individual voting rights but it is expected they will, as far as possible, reach a consensus on the matters considered.

The Board is supported by officers and independent external advisers.

Administering Authority
London Borough of Croydon
Treasury and Pensions Management, Resources Department
5A Bernard Weatherill House
8 Mint Walk
Croydon CR0 1EA

Lisa Taylor - Director of Finance, Investment and Risk, S151 Officer
Lisa.Taylor@Croydon.gov.uk
Nigel Cook - Head of Pensions and Treasury
Nigel.Cook@Croydon.gov.uk
Matthew Hallett - Pension Fund Investment Manager
Matthew.Hallett@Croydon.gov.uk

Asset Pool Operator
London CIV
Fourth Floor
22 Lavington Street
London SE1 0NZ

Investment Adviser
Mercer Ltd
1 Tower Place West
Tower Place
London EC3R 5BU

Peter Gent - Senior Investment Consultant

Governance Adviser
Aon Hewitt Ltd
The Aon Centre
The Leadenhall Building
122 Leadenhall Street
London EC3V 4 AN

Karen McWilliam - Partner & Head of Public Sector Benefits & Governance Consultancy

Actuary
Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

Richard Warden - Partner and Actuary

Custodian of Assets
Bank of New York Mellon
160 Queen Victoria Street
London EC4V 4LA

Auditor - external
Grant Thornton UK LLP
110 Bishopsgate
London EC2N 4AY

Sarah Ironmonger - Director

Auditor - internal
Mazars
Tower Bridge House
St Katherine's Way
London E1W 1DD

Bankers
NatWest Bank
250 Bishopsgate
London EC2M 4AA

Legal Advisers
The Fund opts to procure legal advice on a case by case basis from the Croydon Council Legal Framework

National LGPS Framework
The Fund is a founder member of the National LGPS Framework

AVC Provider
Prudential
Laurence Pountney Hill
London EC4R 0HH

2 Fund Managers

FUND MANAGER	INVESTMENT MANDATE
Legal and General 1 Coleman Street London EC2R 5AA	Developed World (Ex-tobacco)l Equities (Pooled)
London CIV - Janus Henderson (ceased 4 November 2019) Fourth Floor 2 Lavington Street London SE1 0NZ	Emerging Markets Equities (Pooled)
London CIV Fourth Floor 2 Lavington Street London SE1 0NZ	Global Equities (Segregated)
Aberdeen Standard 30 St Mary Axe London EC3A 8BF	UK Corporate Bonds and Absolute Return Bonds (Pooled)
London CIV - PIMCO Fourth Floor 2 Lavington Street London SE1 0NZ	Global Bonds (Pooled)
Wellington 80 Victoria Street London SW1E 5JL	Sterling Bonds (Pooled)
Pantheon 10 Finsbury Square London EC2A 1AD	Private Equity Invest in unquoted companies (Pooled fund of funds) (US Dollar & Euro)
Knightsbridge 122 SW Frank Phillips Boulevard Bartlesville OK 74003 USA	Private Equity – Venture Capital (Pooled fund of funds) (US Dollar)
Access Capital Central Court 25 Southampton Buildings London WC2A 1AL	Private Equity - Co-Investment small European buyout (Euro)

North Sea Capital Ny Vesterdade 13.3 1471 Copenhagen K Denmark	Private Equity Invest in unquoted companies (Pooled fund of funds) (Euro)
Equitix Welken House 10-11 Charterhouse Square London EC1M 6EH	Infrastructure – PFI Projects (Pooled)
Temporis Capital Berger House 36-38 Berkeley Square Mayfair London W1J 5AE	Infrastructure – Onshore wind farms
Macquarie Infrastructure and Real Assets (MIRA) 28 Ropemaker Street London EC2Y 9HD	Infrastructure – Offshore wind farms
Access Capital Central Court 25 Southampton Buildings London WC2A 1AL	Infrastructure – European projects
I-Squared Capital 600 Brickell Penthouse Miami Florida 33131 USA	Infrastructure- Global projects
M & G 10 Fenchurch Avenue London EC3M 5AG	Private Rental Sector UK
Schroders 1 London Wall Place London EC2Y 5AU	UK Property Funds

3 Risk Management

On 17 March 2020 the Fund confirmed the adoption of a Risk Management Policy which details its risk management strategy including:

- the risk philosophy for the management of the Fund and, in particular, attitudes to and appetite for, risk;
- how risk management is implemented;
- risk management responsibilities;
- the procedures that are adopted in the Fund's risk management process;
- the key internal controls operated by the Fund and other parties responsible for the management of the Fund

The Policy (Appendix B) can be accessed via the Pension Fund website.: https://www.croydonpensionscheme.org/resources/

Following best practice, the Committee maintain a risk register which is reviewed by themselves and the Pension Board several times each year. Officers, the Committee and the Board attempt to identify all relevant risk scenarios together with an assessment of their potential likelihood and impact.

Risks have been identified in four categories – Governance, Funding, Investment and Operational – and mitigation work has concentrated on the relatively few but most important risks. For each risk, existing controls are identified and actions designed to mitigate them are considered. The Risk Register is considered by the Pension Committee and / or the Pension Board several times each year.

Both the Investment Strategy Statement and the Funding Strategy Statement identify risks specific to the subject matters covered.

Additionally, the Fund Account and Net Assets Statement (Appendix A) includes a substantial section detailing the nature and extent of some specific risks. It covers price, currency and interest rate risks associated with financial instruments and provides sensitivity analyses showing the potential impact of these risks. It particularly details the valuation risks associated with unquoted private equity and infrastructure investments together with liquidity, re-financing and credit risk.

The Fund is also exposed to third party risk due largely to the outsourcing of its fund manager functions. It seeks assurance as to the efficacy of controls in operation by reviewing each manager's ISAE 3402 or equivalent report. The report is prepared by the manager's auditor who is expected to provide an opinion on the following lines:

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described on pages …. to ….. In our opinion, in all material respects:
(a) The description fairly presents the investment management services conducted on behalf of institutional clients invested in direct portfolios or pooled funds that were designed and implemented throughout the period from ………. to ……….;
(b) The controls related to the control objectives stated in the description were suitably designed throughout the period from ………. to ……….; and

(c) The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from ………. to ………..

The status for each of the managers is as follows:

FUND MANAGER	TYPE OF REPORT	ASSURANCE OBTAINED	REPORTING ACCOUNTANT
Legal and General	ISAE 3402 and AAF 01/06	Obtained	KPMG LLP
London CIV - Janus Henderson	Third Party Controls Oversight Summary Report	Obtained	n/a
Aberdeen Standard	ISAE 3402 and AAF 01/06	Obtained	KPMG LLP
London CIV - PIMCO	CIV Third Party Oversight	Obtained	PWC
Wellington	Management Assertion Statement (American Institute of Certified Public Accountants)	Obtained	PWC
Pantheon	SSAE18 and ISAE 3402	Obtained	KPMG LLP
Knightsbridge	Annual financial statement audit of each fund includes consideration of internal controls	n/a	KPMG LLP
Access Capital	Funds' administrator, APEX Group Ltd. has ISAE 3402.	n/a	n/a
North Sea Capital	ISAE 3402 (Saltgate Group)	Obtained	Deloitte LLP
Equitix	Relies on Annual Audit, FCA and AIFMD requirements and independent custodian	n/a	n/a
Temporis Capital	Compliance and Procedures Manual	Obtained	n/a
Green Investment Bank	Internal Controls - Policies and Procedures	Obtained	n/a
I-Squared Capital	Management Assertion Statement (American Institute of Certified Public Accountants) SOC1 Type2 Report for The Citco Group	Obtained	Ernst and Young LLP
M & G	ISAE 3402 and AAF 01/06	Obtained	Ernst and Young LLP
Schroders	ISAE 3402 and AAF 01/06	Obtained	Ernst and Young LLP

During the year the Internal Audit service carried out their annual review of the Fund's administration processes and produced a follow-up report on their 2018/19 review. The first table below indicates that all the recommendations included in the 2018/19 review had been implemented and the second table indicates the management response to the 2019/20 recommendations.

SUMMARY OF ISSUES RAISED	UPDATED ACTION TAKEN	AUDIT COMMENTS
1. A new pension starter process had not been started for one of the sample of ten new starters tested and new starter forms had not been returned for a further four of the sample Priority 2	At the employers forum held in April scheme employers were reminded about the need to issue a new starter form. Due to pressures created by work which needs to be undertaken in preparation for the triennial valuation of the scheme, there has not been capacity to focus specifically on new starters. However, as a result of the valuation work new starter tasks are being created within Altair in the vast majority of cases. We will look to undertake a blitz on new starters in July once the valuation work is completed. However, it is important to note that members are not adversely affected by any delay in receiving a welcome pack as the 12 month period to transfer any previous pension will start from the date of the welcome letter. **Audit comment:** The above is noted and, while it is accepted that this is ongoing, based on the actions in place and planned, no further follow up of this is planned at this stage.	No further follow up
2. Life certificates had not been issued during 2017/18 or 2018/19 for pensioners living overseas Priority 1	An initial quote for overseas pensioners has been obtained. We have also confirmed the volume of overseas pensioners, including those with UK bank accounts. The next step is to work through the GDPR issues and undertake a PIA and put in place a data sharing agreement prior to commencing the project. We have also obtained two quotes for address tracing/mortality screening. The next step is to discuss procurement process with procurement team and develop business case. **Response July 2019:** We obtained a quote from Western Union to undertake a proof of life exercise. Due to the complexity of GDPR and data being processed outside of the EU, we have decided a better approach would be to issue our own life certificates to overseas pensioners. These will be issued by end July. We have also obtained two quotes for address tracing/mortality screening. A request to procure has been raised to The Buying Team and we have now been asked to produce a specification. Some further help is needed to draft the specification so aiming to complete this and go to market by end August. **Update August 2019** Life certificates for overseas pensioners have now been posted (August 2019). A DPIA has been completed prior to making a final decision whether to procure address tracing and mortality screening services. This is awaiting approval by the information management team. A final decision is expected to be made in October 2019. **Update October 2019** Approx 75% life certs have been returned. Reminders are scheduled to be sent this week. Pensioners will have until end November to respond and then any cases with no responses will result in a suspension of pension payment for December	Implemented

	payrun. DPIA for address tracing and mortality screening needs to be reviewed still and has been scheduled in for early November. This is not a high priority project at present.	
3. Staff did not regularly check that pension system backups were actually being performed by Aquila Heywood, who host the service, or that any test restores had occurred, Priority 2	A service request was raised with Aquila Heywood and evidence of backups provided. The standard process is that if a backup fails we receive an email notification. The last DR exercise was undertaken in December 2018.	No further follow up
4. There were 4254 outstanding tasks on Altair as of 31 January 2019, an issue that was also reported in the 2017/18 audit report Priority 2	We have set up new performance monitoring reports to identify number incoming tasks, number completed and number outstanding. At present it is expected the number of outstanding tasks will have increased due to year end information being received from employers. We have currently one high level quote for backlog clearance and are trying to setup a meeting with that supplier to discuss their service further by end June. **Response July 2019:** We have currently one high level quote for backlog clearance. Next step is to develop business case and commence procurement in the autumn. **Update August 2019** Up until end July number has remained static. This is due to a high number of tasks being created following end of year and the focus being on valuation work. During August we are starting to see a downward trend in the number of tasks outstanding. The business case for engaging a specialist provider to clear the backlog of deferred cases has now been approved. The next step is to investigate procurement options and take a strategy paper through contracts and commissioning board. The procurement process is likely to take several months. **Update October 2019** The total number of outstanding tasks has shown a downward trend over the last 3 months. The procurement strategy for engaging a specialist provider to clear the backlog of deferred cases is schedule to be present to CCB in November and the recommendation is to procure via the National LGPS framework. **Update December 2019** The total number of outstanding tasks continues to show a downward trend. The procurement strategy for engaging a specialist provider to clear the backlog of deferred cases has now been approved. The tender documents and framework terms and conditions are now with legal for review. It is anticipated that the procurement exercise via the framework will commence in the New Year.	In progress

5. A number of procedures were listed on the Pensions team SharePoint page. A number of these had not been reviewed and updated recently, or were not dated and it was not possible to confirm when they were last updated. There were at least 16 different areas with procedure guides that had not been updated recently. Priority 3	A programme of review will be set as performance objectives for the team and work will commence from July once the valuation work has been completed. **Response July 2019:** The valuation work has been pushed back to end July so this will commence in August 19 now. **Update August 2019** A working group is being setup to review the procedures. Membership will be Pension Team Leaders, Systems & Technical Officer and an administrator. The first meeting is scheduled for September 2019. **Update October 2019** A number of procedures have been reviewed including deaths, transfers, retirement check list. There is a need to evidence the review date of each procedure so a spreadsheet will be created and a rolling review process implemented. **Updated December 2019** The rolling review of procedures is ongoing. A spreadsheet has been created which details the last review date and next review due date for each procedure.	No further follow up

SUMMARY OF ISSUES RAISED	ACTION PROPOSED BY MANAGEMENT
1. During the Audit, it was established that there were still 5487 outstanding tasks on Altair as of 6 February 2020, (which is a regression since the 2018/19 Pensions Audit Report, when the backlog reported was 4254). Priority 2	The position has actually slightly improved over the last 12 months. The 4254 tasks in the 2018/19 audit related to what was classified as 'backlog'. We ceased counting outstanding work in this way from April 2019 and the 5487 as at 6 February 2020 relates to the total number of tasks outstanding. At end March 2019 there were a total of 5951 tasks outstanding. Over 60% of the outstanding tasks do relate to a backlog of deferred benefit calculations. A procurement exercise has commenced to seek support from a specialist provider to clear this historical backlog. The tender evaluation and contract award has been temporarily put on hold due to a change in priorities as a result of Covid 19 and is now expected to be completed by Autumn 2020. In addition there are currently 2 vacancies within the team for a Senior Pension Officer and Pension Support Officer and recruitment will commence once current working arrangements return to normal. In addition there is a new Pension Officer who has been recruited and will start employment with us during May 2020. Since April 2019, a monthly KPI report is produced and is presented to both the Pension Committee and Local Pension Board on a quarterly basis enabling performance to be actively monitored.
2. Although, at the time the audit began, there had been no new staff in the Pensions team during the preceding two years, there were plans in place to recruit more staff. The Pensions team did not have a formal training plan for new staff or a record of past training for current staff, although there was evidence of ad hoc training taking place. When there is no training plan in place, it may be difficult to put together comprehensive training for new staff. Additionally, the lack of a record of training for current staff means that gaps in their training may not be apparent, and opportunities for further training may be missed. Priority 3	We were joined by an experienced Pension Team Leader in February with a lot of experience in training. She has been able to identify some training needs and produce training sessions for the whole team or in smaller groups. Training needs are identified by the checkers and through 1:1 discussions with the Pension Officers themselves. We have recently recruited a new Pension Officer and he is receiving structured one to one training (via skype during the lockdown) from the Pension Team Leaders. A log is being created to evidence this training with the view that it will be used for future new recruits. This is currently a work in progress as the training takes place and will be stored in the Guidance & Processes library on the Pension Admin SharePoint site.

B. FINANCIAL PERFORMANCE

FUND ACCOUNT	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Dealings with members and employers				
Contributions - members	11,263	12,038	12,746	13,965
Contributions - employers	75,942	32,140	35,062	38,243
Transfers in	4,684	7,880	11,584	14,179
Pensions	-40,424	-42,381	-43,431	-46,540
Lump sums	-10,214	-7,908	-8,923	-10,310
Transfers out	-4,240	-4,922	-5,794	-10,769
Net additions/withdrawals (-)	**37,011**	**-3,153**	**1,244**	**-1,232**
Management expenses				
Administration	-1,340	-1,417	-1,083	-1,676
Oversight and governance	-618	-669	-674	-1,041
Investment management	-4,508	-4,759	-6,410	-8,708
Total management expenses	**-6,466**	**-6,845**	**-8,167**	**-11,425**
Return on investments				
Income	16,572	12,661	5,468	9,425
Change in market value	179,912	32,725	120,171	1,912
Total return on investments	**196,484**	**45,386**	**125,639**	**11,337**
NET INCREASE IN FUND	**227,029**	**35,388**	**118,716**	**-1,320**

In three of the last four years the Fund asset value has increased substantially. In 2019/20, for the first three quarters of the year, the same was true. However by year end the impact of the Covid 19 pandemic was beginning to be felt and significant losses were suffered in the Global Equities fund. However, these were largely offset by increases in the other asset classes and the total value of the Fund showed a minimal reduction from £1,258.1m to £1256.8m.

Officers and the Pension Committee monitor investment performance continuously and seek advice from the Fund's independent Investment Adviser as necessary.

Over the four years' period, a consistent theme has been that on an annual basis pensions paid have been close to contributions received. This suggests that the Fund is approaching the point of maturity when payments will consistently exceed contributions. The net addition of £37.0m in 2016/17 was due largely to the payment by the Council of a lump sum of £33.2m in lieu of three annual payments of £11.8m.

The triennial valuation of the Fund completed during 2019/20 showed an improvement in the overall funding level to 88% compared to 73% at the previous valuation. Whilst benefits accrued exceeded contributions, outstanding investment returns ensured that the deficit was reduced from £326m to £165m. By making substantial "deficit recovery" payments the

Fund is making progress towards achieving its objective of a 100% funding level within 20 years.

UNIT COSTS	2016/17	2017/18	2018/19	2019/20
Administration, oversight and governance costs				
Administration costs (£'000)	1,340	1,417	1,083	1,676
Administration costs per member (£)	52.31	53.22	37.80	57.26
Oversight and governance costs (£'000)	618	669	674	1,041
Oversight and governance costs per member (£)	24.13	25.13	23.52	35.56
Total administration, oversight and governance costs per member	**76.44**	**78.35**	**61.32**	**92.82**
Investment management costs (£'000)	4,508	4,759	6,410	8,708
Investment management costs as percentage of investment assets	0.42	0.42	0.51	0.73

At the end of the year the following staff were in post

	Full time equivalents
Investment and Treasury	6
Governance and Compliance	3
Administration	15
Technical Support	2

C. INVESTMENT POLICY AND PERFORMANCE

1 Introduction

As Administering Authority, the Council discharges its duties through the Pension Committee. The strategic management of the assets is one of the responsibilities of the Committee which it carries out in consultation with the Fund's Investment Adviser.. Day-to-day management of the investments is the responsibility of fund managers, who have been appointed by the Committee, acting under agreed mandates, and Council officers acting under delegated powers.

The Committee has adopted an Investment Strategy Statement in accordance with relevant Regulations and Guidance. The full Statement (Appendix C) can be accessed via: https://www.croydonpensionscheme.org/media/4443/iss-september-2018.pdf

The Fund's goal is to ensure there are sufficient assets to meet all liabilities as they fall due. In order to achieve this goal the Committee has adopted the following objectives:

- Achieve a return on investments which at least meets the assumed return (the discount rate) used by the Actuary when setting the triennial valuation.
- Keep risk within acceptable levels.
- Maintain liquidity requirements to pay liabilities when they fall due.

The Statement includes details of the Fund's approach to:

- Asset allocation;
- Risk management;
- Pooling of assets;
- Environmental, social and governance issues; and
- Voting.

As set out in the Regulations, the Committee reviews the Investment Strategy Statement from time to time and at least every three years. In the event of any material change to any matter contained within the Statement, this will be reflected within six months of it occurring.

2 Asset Allocation

The strategic asset allocation target used throught the year came into force in September 2018 as follows.

ASSET CLASS	TARGET %	OPERATIONAL RANGE %
Equities	42	37-47
Fixed interest	23	15-28
Alternatives	34	29-35
Cash	1	0-10
TOTAL	**100**	

The Alternatives category is further broken down as follows:

ASSET CLASS	TARGET %	OPERATIONAL RANGE %
Private equity	8	5-13
Infrastructure	10	5-15
Property	10	5-15
Private rental sector property	6	2-8
TOTAL	**34**	

The Committee recognises that it takes time to complete the transition to a revised asset allocation due to the assets included within the alternatives category being illiquid and the time it takes to source investable opportunities. However, by the year end 2018/19 all of the asset classes were within 2% of their target allocation and those with the heaviest weightings almost exactly on target. Throughout the first half of 2019/20 all the main asset classes were within 1% of their target allocation with only infrastructure showing a significant overweight position and private rental sector being underweight by an almost corresponding percentage. However, during the third quarter the Fund liquidated its holding in emerging markets equities and by year end was underweight in Equities and overweight in Alternatives. During the year some of the receipts from Private Equity investments were re-invested in Infrastructure.

The Fund's main currency exposures are to the US Dollar and the Euro. In view of Sterling's long term weakness against these currencies, exacerbated by Brexit uncertainties, the opportunity was taken to "lock-in" some of the gains made by the Fund and to provide some cover against future risks.. On 1 August 2019 a 50% currency hedge was applied to the Legal and General Developed World (ex-tobacco) Equities fund. As at 31 March 2020 the hedge was working slightly in the Fund's favour.

The distribution of the Fund's investment assets among fund managers at 31 March 2019 and 31 March 2020 is detailed below.

Fund Manager	Investment Mandate	% of Investment Assets at 31 March 2019	% of Investment Assets at 31 March 2020
Legal and General	Developed World (Ex-tobacco) Equities (pooled)	36.7	36.0
London CIV - Janus Henderson	Emerging Markets Equities (pooled)	4.7	
London CIV	Global Equities (Segregated)		
Aberdeen Standard	UK Corporate Bonds and Absolute Return Bonds (Pooled)	10.5	11.2
London CIV - PIMCO	Global Bonds (Pooled)	6.8	7.1
Wellington	Sterling Bonds (Pooled)	5.4	6.1

Pantheon	Private Equity Invest in unquoted companies (Pooled fund of funds) (US Dollar & Euro)	5.3	5.1
Knightsbridge	Private Equity – Venture Capital (Pooled fund of funds) (US Dollar)	2.5	3.0
Access Capital	Private Equity - Co-Investment small European buyout (Euro)	1.2	1.1
North Sea Capital	Private Equity Invest in unquoted companies (Pooled fund of funds) (Euro)	0.3	0.4
Equitix	Infrastructure – PFI Projects (Pooled)	5.2	6.6
Temporis Capital	Infrastructure – Onshore wind farms	2.8	2.5
Macquarie Infrastructure and Real Assets (MIRA)	Infrastructure – Offshore wind farms	2.0	1.9
Access Capital	Infrastructure – European projects	1.1	1.6
I-Squared Capital	Infrastructure	0.6	1.6
M & G	Private Rental Sector UK	4.8	5.2
Schroders	UK Property Funds	9.5	9.7
Cash		0.6	0.9
TOTAL		**100.0**	**100.0**

3 Monitoring the Fund Managers

Performance of the fund managers is reviewed formally at the quarterly Committee meetings. To assist the Committee, reports on managers' performance are provided by the Council's officers and the Investment Adviser. Additionally, the Council's officers and the Adviser meet the managers regularly to review their actions together with the reasons for their investment performance.

4 Custody

The Fund employs The Bank of New York Mellon as an independent custodian for use as required. However, as the proportion of its assets managed on a pooled basis through the London CIV increases the role of the custodian will be reviewed.

5 Performance

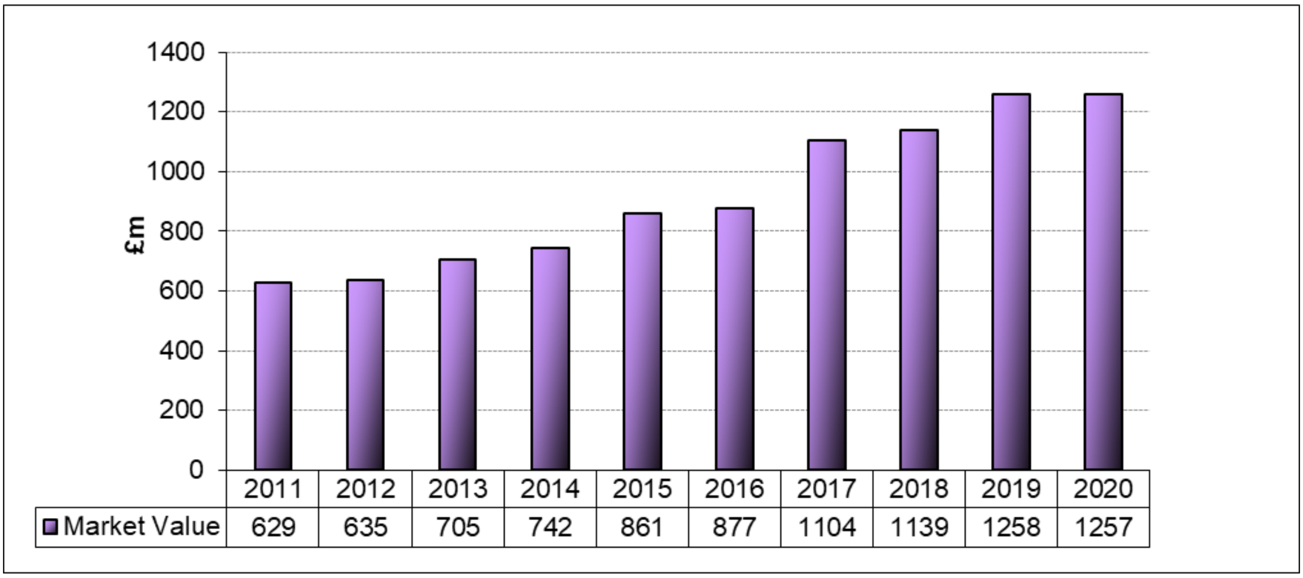
The Fund's performance is measured against its own customised benchmark of CPI plus 4%. During the 2019/2020 financial year it returned 0.2%, underperforming its benchmark by 5.3%. The underperformance was all due to the immediate shock suffered by global markets due to the onset of the Covid-19 pandemic. This has also led to an underperformance over the 3 year period. Over the longer term period of 5 years the Fund continued to outperform the benchmark. This is extremely positive as it shows the Fund can continue to perform over the long term and to date has withstood a major shock caused by an unpredictable and potentially catrostophic event.

The annualised investment returns of the Fund for 1, 3 and 5 years are as follows:

	FUND (% PER YEAR)	BENCHMARK (% PER YEAR)
1 Year	0.2%	5.5%
3 Years	4.7%	6.0%
5 Years	7.3%	5.7%

6 Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2020 were £1,257m compared with £629m at 31 March 2011. The chart below shows the growth of the assets over the past ten years.



NET ASSETS AT 31 MARCH 2020	£m	%
Market value of investments	1173.82	93.4
Other balances held by fund managers	1.27	0.1
Cash held by fund managers	9.81	0.8
Net current assets	71.94	5.7
TOTAL	**1256.84**	**100.0**

7 Distribution of Assets by Market Value

INVESTMENTS AT 31 MARCH 2020	£m	%
Global equities	426.11	36.30
Private equity	114.47	9.75
Bonds	288.82	24.60
Private rental sector	61.94	5.28
Property	115.35	9.83
Infrastructure	167.13	14.24
TOTAL	**1173.82**	**100.00**

8 Top 10 Global Holdings

	Approximate market value £m	% of total fund
Microsoft Corp	14.48	1.15
Apple Inc	12.78	1.02
Amazon.com Inc	9.80	0.78
Facebook	4.69	0.37
Alphabet C	4.26	0.34
Johnson and Johnson	4.26	0.34
Alphabet A	4.26	0.34
Nestle	3.83	0.31
JP Morgan Chase & Co	3.41	0.27
Visa Inc A	3.41	0.27

9 Environmental, Social and Governance Issues

Paragraph 6 of the Investment Strategy Statement describes the Fund's Environmental, Social and Governance Strategy as follows:

6.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pension Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

6.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

6.3 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. The Fund will disinvest from *existing fossil fuel investments in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.*

6.4 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long term performance of the Fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

6.6 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.7 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

6.8 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

At their meeting in May 2019 The committee considered a report from the Investment Adviser on the environmental impact of the Fund and the challenges inherent in seeking to move to a “carbon neutral” approach by the Fund. They further agreed to

- Undertake a fact-finding and information session on climate change and investment
- Undertake a fuller carbon footprint exercise
- Update the policy on climate change, incorporating targets and metrics
- Consult with Fund members and other scheme employers on the next steps around moving towards carbon neutrality in the Fund
- Implement the adopted policy.

In November 2019 the Committee received a training presentation entitled "Investing in a Time of Climate Change Crisis."

10 Voting

Paragraph 7 of the Investment Strategy Statement describes the Fund's Voting Strategy as follows:

7.1 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

7.2 The Fund has delegated responsibility for voting rights to the Fund's external investment manager, currently LGIM, and expects them to vote in accordance with the Fund's voting policy.

7.3 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website.

7.4 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.

7.5 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

7.8 In addition the Fund:

- *Is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;*
- *is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;*
- *Joins wider lobbying activities where appropriate opportunities arise.*

D. SCHEME ADMINISTRATION

The Fund's Administration Team carry out a wide range of functions in support of the members. Two of those most important to the members are notifying dependants of death benefits and retiring members of the benefits they will receive.

Performance against these two key metrics was as follows:

Case type	Month	KPI target (no of days to process on receipt of all information)	Total cases processed	Average no of days taken to process	% within KPI target
Deaths	April	20	34	9	88.24
Retirements	April	20	46	4	100.00
Deaths	May	20	37	4	83.78
Retirements	May	20	43	2	100.00
Deaths	June	20	34	18	91.18
Retirements	June	20	51	4	94.12
Deaths	July	20	23	8	100.00
Retirements	July	20	55	4	98.18
Deaths	August	20	27	17	92.59
Retirements	August	20	62	1	85.37
Deaths	September	20	18	38	94.44
Retirements	September	20	51	1	100.00
Deaths	October	20	21	3	100.00
Retirements	October	20	63	1	100.00
Deaths	November	20	15	3	100.00
Retirements	November	20	42	5	100.00
Deaths	December	20	29	16	88.88
Retirements	December	20	41	2	97.56
Deaths	January	20	18	5	100.00
Retirements	January	20	41	2	100.00
Deaths	February	20	18	5	100.00
Retirements	February	20	27	4	100.00
Deaths	March	20	19	31	78.95
Retirements	March	20	28	3	100.00
Deaths	**TOTAL**	**20**	**293**	**13**	**92.07**
Retirements	**TOTAL**	**20**	**550**	**3**	**97.44**

Performance against other deadlines was as follows:

LEGAL DEADLINES			
PROCESS	**LEGAL REQUIREMENT**	**TOTAL NUMBER COMPLETED**	**% ACHIEVED WITHIN LEGAL DEADLINE**
Notify the amount of retirement benefits	One month from the date of retirement if on or after normal pension age or two months from the date of retirement if after normal pension age	550	99.32
Provide a retirement quotation on request	As soon as practicable but no more than two months from the date of request unless there has already been a request in the last 12 months.	758	97.22
Calculate and notify dependent(s) of amount of death benefits	As soon as possible but, in any event, no more than two months from the date of becoming aware of death or from date of request from a third party (eg personal representative).	293	96.28
Send a notification of joining the LGPS to a Scheme member	Two months from the date of joining the Scheme or earlier if within one month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	1,855	86.94
Inform a member who has left the Scheme of their calculated benefits	As soon as practicable and no more than two months from the date of notification (from employer or Scheme member)	1,345	41.39
Provide all active and deferred members with Annual Benefit Statements each year	By 31 August	16,167	over 99.00

TEAM PERFORMANCE TARGETS 2019/20				
PROCESS	TEAM TARGET	TOTAL NUMBER COMPLETED	% ACHIEVED AGAINST TARGET	AVERAGE DAYS TO PROCESS
Notify the amount of retirement benefits	20 working days from date of retirement	550	97.93	6
Provide a retirement quotation on request	15 working days from date of request	758	80.40	15
Calculate and notify dependent(s) of amount of death benefits	20 working days from receipt of all information	293	93.18	13
Send a notification of joining the LGPS to a Scheme member	30 days from date of notification of joining member	1855	70.20	30
Inform a member who has left the Scheme of their calculated benefits	40 working days from date of notification (from employer or Scheme member)	1345	36.90	339

E. ACTUARIAL REPORT

1 Valuation

In accordance with the Regulations the Fund commissions a revaluation of its assets and liabilities every three years. The most recent valuation was produced by the Actuary during 2019/20 reflecting the position as at 31 March 2019 with the following results:

ACTUARIAL VALUATION	31 March 2007	31 March 2010	31 March 2013	31 March 2016	31 March 2019
Assets (£m)	545	583	705	877	1,258
Liabilities (£m)	806	884	1,064	1,203	1,423
Deficit (£m)	261	301	359	326	165
Funding Level (%)	68	66	66	73	88

The key financial assumptions underpinning the valuation were:

FINANCIAL ASSUMPTIONS	31 March 2019 %
Discount rate	4.0
Pay increases	2.3
Pension increases	2.3
Revaluation of accrued CARE pension	2.3

Demographic assumptions are more complex and can be seen in the Actuarial Report. The Fund's target to achieve full funding is 20 years and employers' contribution rates are set to give a high likelihood of achieving this.

At the valuation, contribution rates were set for the Council and for approximately 100 Admitted and Scheduled bodies. The percentage of pensionable pay set for the Council for 2019/20 was 16.1% whilst for all other bodies it ranged from zero to over 30%.

A copy of the Actuarial Valuation Report (Appendix D) can be accessed via: https://www.croydonpensionscheme.org/media/5339/london-borough-of-croydon-pension-fund-2019-final-valuation-report-at-31-march-2019.pdf

2 Membership of the Fund

During 2019/20 employers made payments into the Fund as follows:

EMPLOYERS IN FUND	Employees' Contributions £'000	Employers' Contributions £'000	Total Contributions £'000
London Borough of Croydon	**9,673**	**23,093**	**32,766**
(Community) Admitted Bodies			
Croydon Citizens Advice Bureau	1	10	11
Croydon Community Mediation	2	10	12
Croydon Voluntary Action	29	115	144
Admitted Bodies			
Arthur McKay Ltd	2	11	13
AXIS Europe plc (Housing Repairs)	13	47	60
Brick by Brick Croydon Ltd	30	70	100
Capita Secure Information Solutions Ltd	6	18	24
Churchill Croydon	5	19	24
Churchill Services Ltd	0	2	2
Conway Construction Ltd	10	43	53
Croydon Equipment Services Ltd	150	362	512
Greenwich Leisure Ltd	39	121	160
Ground Control Ltd	2	-	2
Hats /Olympic South	3	11	14
Idverde 622	68	190	258
Impact Group Ltd	1	2	3
Keyring Living Support Networks	2	8	10
London Hire (now joined Olympic South)	3	8	11
Nationwide Cleaning	1	6	7
Octavo	129	286	415
Olive Dining Ltd	2	8	10
Quadron Services Ltd	-	- 13	- 13
Roman Catholic Archdiocese of Southwark	5	16	21
Skanska Construction UK Ltd	5	11	16
Sodexo Ltd	2	5	7
The BRIT School	136	311	447
Veolia (ex Cleanaway) 536	11	59	70
Veolia SLWP1 608	22	55	77
Veolia SLWP2 (ex Sutton and Merton) 625	271	755	1,026
Vinci Facilities Ltd	2	-	2
Wallington Cars and Couriers Ltd	2	5	7
Westgate Cleaning Services Ltd	0	1	1
Early Retirement Costs	-	123	123
Total Contributions from Admitted Bodies	**954**	**2,675**	**3,629**
Scheduled Bodies			
Aerodrome Primary Academy	42	132	174
Applegarth STEP	33	107	140
Ark Oval Primary Academy	37	114	151
Atwood Primary Academy	30	113	143
Broadmead Primary Academy	28	149	177

Castle Hill Academy	33	120	153
Chestnut Park Primary School	27	76	103
Chipstead Valley Primary School	63	231	294
Coombe Wood School - Part of Folio Trust	108	326	434
Courtwood Primary School - Part of Collegiate Trust	21	56	77
Crescent Primary Academy	44	139	183
Croydon College	267	1,603	1,870
David Livingstone Academy - STEP Academy Trust	9	28	37
Davidson Primary Academy	7	81	88
Fairchildes Primary School	66	241	307
Forest Academy	34	109	143
Gilbert Scott Primary School - Part of Collegiate Trust	23	52	75
Gonville Academy - STEP Academy Trust	30	109	139
Good Shepherd Catholic Primary and Nursery School	17	80	97
Harris Academy Purley	51	176	227
Harris Academy South Norwood	91	259	350
Harris City Academy Crystal Palace	421	830	1,251
Harris Invictus Academy	37	101	138
Harris Primary Academy Benson	19	87	106
Harris Primary Academy Haling Park	18	46	64
Harris Primary Academy Kenley	24	85	109
Harris Purley Way	7	30	37
Heathfield Academy - STEP Academy Trust	17	51	68
Keston Primary School - PACE Academy Trust	26	113	139
Kingsley Primary Academy	56	255	311
Krishna Avanti Primary School	5	19	24
Manor Trust	51	157	208
Meridian High School	40	150	190
Monks Orchard Primary & Nursery School	30	131	161
New Valley Primary School - PACE Academy Trust	11	44	55
Norbury Manor Business and Enterprise College for Girls - The Manor Trust	51	185	236
Oasis Academy Arena	26	71	97
Oasis Academy Byron	16	59	75
Oasis Academy Coulsdon	63	229	292
Oasis Academy Ryelands	31	124	155
Oasis Academy Shirley Park	106	400	506
Orchard Park High School	37	229	266
Paxton Academy	12	35	47
Pegasus Academy Trust	146	626	772
Riddlesdown Collegiate	128	408	536
Rowdown Primary School	21	85	106
Shirley High School Performing Arts College	53	186	239
South Norwood Primary School - The Pioneer Academy	30	130	160
St Aidan's Catholic Primary School	15	81	96
St Chad's Catholic Primary School	34	204	238
St Cyprian's Greek Orthodox Primary Academy	29	100	129
St James the Great RC Primary and Nursery	35	158	193
St Joseph's College	42	147	189
St Mark's C of E Primary Academy	16	58	74
St Mary's Catholic Infant School	21	103	124
St Mary's Catholic Junior School	21	84	105
St Thomas Becket Catholic Primary	23	91	114
STEP Central (part of Gonville)	68	178	246
The Archbishop Lanfranc Academy - Coloma Trust	37	215	252

The Beckmead Trust	156	554	710
The Quest Academy	34	134	168
The Robert Fitzroy Academy	54	143	197
Tudor Academy - Wolsey Infants	21	97	118
West Thornton Primary School	50	181	231
Winterbourne Boys Academy	6	37	43
Tudor Academy -Wolsey Juniors	18	79	97
Woodcote High School	71	263	334
Woodside Primary School & Children's Centre	44	222	266
Early Retirement Costs	-	179	179
Total Contributions from Scheduled Bodies	**3,338**	**12,475**	**15,813**
TOTAL CONTRIBUTIONS	**13,965**	**38,243**	**52,208**

The tables below explain the growth in membership of the Fund over the last year.

	As at 31 March 2020	As at 31 March 2019	Variance	% change
Contributing members	10,064	9,811	253	2.6
Deferred pensioners	10,923	10,936	- 13	- 0.1
Pensioners	8,285	7,903	382	4.8
TOTAL	**29,272**	**28,650**	**622**	**2.2**

	Approximate variances in 2019/20
Ill-health retirements	27
Early retirements	178
Normal retirements	290
New dependants	82
Sub total	**577**
Less deaths	195
TOTAL	**382**

F. GOVERNANCE

1 Governance Compliance Statement

The administering authority of a Local Government Pension Scheme is required to publish a Governance Compliance Statement. The Statement aims to make the administration and stewardship of the scheme more transparent and accountable to stakeholders and provides the following information:

- how the Council, as the Fund's Administering Authority, discharges its responsibilities to maintain and manage the Fund in accordance with regulatory requirements;
- the structure of the decision making process;
- the frequency of Pension Committee meetings; and
- the voting rights of Committee members.

The Fund's Statement (Appendix E) can be accessed via:
https://www.croydonpensionscheme.org/media/6714/compliance-statement-2021.pdf

2 Attendance at Meetings

Attendance at the meetings of the Committee and the Board by the members during 2019/20 was as follows:

Date of Committee Meeting	20 May 2019	11 June 2019	17 September 2019	5 November 2019	7 January 2020	11 February 2020	17 March 2020
Councillor Andrew Pelling (Chair)	✓	✓	✓	✓	✓	✓	✓
Councillor Simon Hall (Vice Chair)	✓	✓	✓	✓	✓		✓
Councillor Simon Brew	✓	✓	✓	✓	✓	✓	✓
Councillor Robert Canning	✓	✓	✓	✓		✓	✓
Councillor Luke Clancy			✓	✓			
Councillor Clive Fraser	✓	✓	✓	✓	✓	✓	✓
Councillor Patricia Hay- Justice	✓	✓	✓	✓	✓		✓
Councillor Yvette Hopley	✓	✓	✓	✓		✓	✓
Gilli Driver (Pensioner Representative)			✓		✓	✓	
Peter Howard (Pensioner Representative)		✓	✓	✓	✓	✓	✓
Charles Quaye (Union Representative)		✓	✓	✓	✓	✓	

Date of Board Meeting	11 July 2019	17 October 2019	16 January 2020
Michael Ellsmore (Chair)	✓	✓	✓
Richard Elliott	✓	✓	✓
Councillor Jerry Fitzpatrick	✓	✓	✓
Daniel Pyke	✓	✓	✓
Teresa Fritz	✓	✓	✓
Ava Payne / Watt	✓	✓	
David Wickman	✓	✓	✓

3 Training

A wide range of training opportunities were made available to all members of the Committee and the Board including The Pensions Regulator's Trustee Toolkit modules, the LGE Fundamentals Course and various seminars offered by CIPFA and other providers.

Specific training sessions held at meetings of the Committee and the Board included:

- Investment Strategy
- Actuarial Valuation
- Key Performance Indicators
- Investing in a time of climate crisis
- Potential impact on investments of a range of geo-political factors
- Role of the Local Government Pension Scheme Advisory Board

G. FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

The Fund’s Fund Account and Net Asset Statement is attached as Appendix A.

H. ASSET POOLS

In 2015 the, then, Department of Housing, Communities and Local Government issued Guidance which set out how the Government expected funds to establish asset pooling arrangements. The objective was to deliver:

- benefits of scale;
- strong governance and decision making;
- reduced costs and excellent value for money; and
- an improved capacity and capability to invest in infrastructure.

By that time, as a founder member, Croydon had already voluntarily joined the London Collective Investment Vehicle (London CIV). The London CIV's stated objectives are to deliver broader investment opportunities and enhanced cost efficiencies than funds can achieve individually and overall better risk adjusted performance. It is FCA regulated and was the first of the eight asset pools in England and Wales to become established with all the London borough funds as members.

Since its founding in 2014 the London CIV has developed its governance structure with the key component being a Shareholders Committee which must be consulted by the Board on specified matters. The Committee is made up of Council members and officers of shareholders agreed via a methodology specified in the Terms of Reference.

As at 31 March 2019 the Fund had investments of £142.1m (11.5% of its investments) invested in sub-funds managed by the London CIV and a further £458.0m (36.7%) within the pooling umbrella but not managed by the London CIV. At its quarterly high point during the year (30 September) the percentage "invested" via the London CIV had increased to approximately 48.6%. However, by that time it had become clear that, following the departure of the portfolio manager and the imminent departure of his team, the London CIV needed to replace the emerging markets fund of Janus Henderson, in which the Fund was invested. However, the new manager did not meet the Fund's ESG aspirations and, additionally, the Committee's convictions in favour of emerging markets had lessened. Therefore a decision was taken to terminate the emerging markets mandate and hold the funds in cash instruments until a suitable alternative equity mandate becomes available through the London CIV.

Due to the increased cash holding and the significant falls in equity markets during the last quarter of the year, by 31 March 2020 the holdings represented by "investments" through the London CIV represented 43% of total investments.

During the year no formal changes were made to the Fund's investment strategy and notwithstanding the reduction in the year of 5.2% the Committee consider that they continue to show a significant commitment to the pooling concept. In view of the Fund's substantial holdings in relatively illiquid private equity, infrastructure and property funds it appears likely that, in the short term, any further investments to sub funds of the London CIV will be limited to the cash holdings and the 7.1% of the Fund currently invested in a bonds sub-fund.

Details of the movements in the Fund over the year are shown below.

	31 March 2019 £m	31 March 2019 %	30 Sept 2019 £m	30 Sept 2019 %	31 March 2020 £m	31 March 2020 %
POOLED INVESTMENTS						
Equities						
LGIM	458.0	36.7	499.8	37.5	426.0	35.9
Janus Henderson	58.0	4.7	58.4	4.4		
Fixed interest						
PIMCO	84.1	6.8	89.4	6.7	84.1	7.1
SUB-TOTAL	**600.1**	**48.2**	**647.6**	**48.6**	**510.1**	**43.0**
OTHER	**637.1**	**51.2**	**670.6**	**50.4**	**664.0**	**56.0**
CASH	**8.0**	**0.6**	**13.9**	**1.0**	**11.1**	**1.0**
TOTAL	**1,245.2**	**100.0**	**1,332.1**	**100.0**	**1,185.2**	**100.0**

Since, during the year, no new mandates were awarded to managers included on the London CIV platform the only payments made to the CIV by the Fund were the asset pool development funding charge of £90,000. The whole of the investment costs incurred by the Fund are broken down as follows:

	Asset Pool			Non-Asset Pool			Fund Total
	Direct £'000	Indirect £'000	Total £'000	Direct £'000	Indirect £'000	Total £'000	£'000
Management fees							
By value	394.8	789.9	1,184.7	173.3	5,707.2	5,880.5	7,065.2
Performance					649.7	649.7	649.7
Asset pool shared costs	90.0		90.0				90.0
Transaction costs		566.0	566.0		235.5	235.5	801.5
Custody				102.0		102.0	102.0
TOTAL	**484.8**	**1,355.9**	**1,840.7**	**275.3**	**6,592.4**	**6,867.7**	**8,708.4**

Estimated savings arising from the pool investments during 2019/20 are as follows:

	Assets under management 31/03/20 £'000	Estimated gross fees savings £'000	Management fees £'000	Development funding charge £'000	Estimated net fees savings £'000
Equities					
LGIM	425,959	290	25		265
Fixed interest					
PIMCO	84,104	305	13		292
Development funding charge				90	-90
TOTAL	**510,063**	**595**	**38**	**90**	**467**

I PENSIONS ADMINISTRATION STRATEGY STATEMENT

The Fund's Administration Strategy Statement (Appendix F) can be accessed via: https://www.croydonpensionscheme.org/media/2872/administration-strategy-final-july-2017.pdf

J FUNDING STRATEGY STATEMENT

Under the LGPS Regulations the Fund is required to prepare, maintain and publish a Funding Strategy Statement.

It is prepared, usually at the time of the triennial valuation, in collaboration with the Fund's Actuary and in consultation with the Fund's employers and investment advisers. The current Statement was published in March 2020 and sets out the objectives of the funding strategy as:

- 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 (this will also minimise the costs to be borne by Council Tax payers);
- 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.

The Statement (Appendix G) can be accessed via:

Funding Strategy Statement Croydon Pension Fund (croydonpensionscheme.org)

K INVESTMENT STRATEGY STATEMENT

Under Ministry of Housing, Communities and Local Government Guidance the Fund is required to prepare, maintain and publish an Investment Strategy Statement. The Statement must contain:

- the strategy and processes in place for managing investment risk;
- allocations of investments across asset classes;
- approach to pooling and participation in national asset pools;
- risk management arrangements;
- social and environmental policies and corporate governance considerations; and
- the exercise of rights attached to investments.

The current Statement (Appendix C) was published in September 2018 and can be accessed via:
https://www.croydonpensionscheme.org/media/4443/iss-september-2018.pdf

L COMMUNICATIONS POLICY

Under Regulations the Fund is required to prepare, maintain and publish a Communications Policy Statement. The Fund's Statement is expected to cover:

- its policy as regards communicating with interested parties including members and other employers within the scheme; and
- the method and frequency of communications used such as newsletters, annual benefit statements and the pensions website.

The current Statement (Appendix H) was published in September 2019 and can be accessed via:

https://www.croydonpensionscheme.org/media/6706/communications-policy-sep-19.pdf

Below is a summary of communications produced by the Fund and the format used.

COMMUNICATION MATERIAL	FORMAT			WHEN PUBLISHED	WHEN REVIEWED
	PAPER	ELECT	INTERNET		
Pension Scheme Guide	✓	✓	✓	Constantly available	Annually
Topping Up Benefits	✓	✓	✓	Constantly available	Annually
Annual Benefit Statements	✓	✓		Annually	Annually
Statutory Notifications	✓	✓		On joining and Annual Benefit Statement	Annually
Members Self Service		✓	✓	On joining	Continually
Pension Updates	✓	✓	✓	As required	After each publication
Annual Pension Fund Report	✓	✓	✓	Annually	Annually
Early Leaver Information	✓	✓	✓	Sent with deferred benefits statement	Annually
Early Leaver Guidance	✓	✓		Constantly available	Annually
Retirement Information	✓	✓	✓	Sent with retirement details	Annually
Retirement Guidance	✓	✓	✓	Constantly available	Annually
Pension Increase - Incorporated in the Pensioners Newsletter	✓	✓	✓	Annually	Annually
Actuarial Valuation Report	✓	✓	✓	Triennially	Triennially
Pension Committee	✓	✓	✓	Quarterly	Quarterly
Pension Board	✓	✓	✓	Quarterly	Quarterly
Communications Policy Statement	✓	✓	✓	Annually	Annually
Governance Compliance Statement	✓	✓	✓	Annually	Annually

M EXTERNAL AUDIT OPINION

The audit opinion of Grant Thornton UK LLP on the Fund's Fund Account and Net Asset Statement is included in Appendix A

N MAIN FEATURES OF LOCAL GOVERNMENT PENSION SCHEME

1 Eligibility for Membership

Membership is generally available to employees of participating employers who have contracts of at least 3 months, are under age 75, and are not eligible for membership of another statutory pension scheme. Employees of designating bodies or admitted bodies can only join if covered by a relevant agreement.

2 Benefits on Death in Service

A lump sum is payable on death in service. This is three times the member's annual assumed pensionable pay. The Administering Authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's widow, widower, civil partner, nominated cohabiting partner and dependant children.

3 Benefits on Retirement

For membership from April 2014 onwards, pension benefits are based on career average revalued earnings and the accrual rate is 1/49th. Benefits for earlier membership consist of a pension calculated as 1/60th of final pay for each year of membership accrued from 1 April 2008 to 31 March 2014. The accrual rate is 1/80th of final pay for each year of membership accrued before 1 April 2008 plus a lump sum of three times the pension. Actual membership may be enhanced automatically in cases of ill health retirement. Employers may choose to increase pension. Members can normally exchange some pension to provide a bigger lump sum.

4 Benefits on Death after Retirement

A death grant is payable if less than 10 years pension has been paid and the pensioner is under age 75 at the date of death, in which case the balance of 10 years of pension is paid as a lump sum. Pensions are also generally payable to the pensioner's widow, widower, civil partner, nominated cohabiting partner and dependant children.

5 Extra Benefits

The scheme offers several ways for members to improve benefits:

- Payment of additional pension contributions (APCs) to buy extra pension; and
- A money purchase additional voluntary contribution (AVC) scheme which operates with the Prudential offering pension and life assurance options.

6 Employee contributions

The bands of contribution rates are as shown below for contributions taken in respect of pensionable pay received from 1 April 2019. The employee pays contributions at the appropriate band rate on all pensionable pay received in respect of that job (or at half that rate if the employee is in the 50/50 scheme).

Band	Actual pensionable pay for an employment	Contribution rate for that employment – main scheme	Contribution rate for that employment – 50/50 scheme
1	Up to £14,400	5.5%	2.75%
2	£14,401 to £22,500	5.8%	2.90%
3	£22,501 to £36,500	6.5%	3.25%
4	£36,501 to £46,200	6.8%	3.40%
5	£46,201 to £64,600	8.5%	4.25%
6	£64,601 to £91,500	9.9%	4.95%
7	£91,501 to £107,700	10.5%	5.25%
8	£107,701 to £161,500	11.4%	5.70%
9	£161,501 or more	12.5%	6.25%

7 Age of retirement

Normal retirement age is now linked to State Pension Age, but:

- pension benefits are payable at any age if awarded due to ill health;
- members may retire with fully accrued benefits from age 55 onwards if their retirement is on grounds of redundancy or business efficiency;
- members who have left employment may request payment of benefits from age 55 onwards. Actuarial reductions may apply where benefits come into payment before the State Pension Age.
- members who remain in employment may also ask to retire flexibly from age 55 onwards if they reduce their hours of work or grade. Employer consent is required and actuarial reductions may apply.
- payment of benefits may be delayed beyond State Pension Age but only up to age 75.

8 Pensions Increases

Pensions payable to members who retire on health grounds and to dependants in receipt of a pension in respect of a deceased member are increased annually by law in line with increases in inflation. Pensions payable to other members who have reached the age of 55 also benefit from this annual inflation proofing. Where a member has an entitlement to a Guaranteed Minimum Pension (which relates to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions through the State Pension.

LGPS pensions are increased in line with the rise in the Consumer Price Index (CPI), in accordance with the Pensions Increase Act 1971. Although pensions are increased in April, they are based on the rise in the CPI over the 12 months to the previous September. The pensions increase calculation for April 2019 was based on the increase in CPI during the 12 months to September 2018 and was set at 2.4%.

9 Pension Fund Fraud / National Fraud Initiative

The Council is required to protect the public funds it administers. It may share information provided to it with other bodies responsible for auditing or administering public funds or where undertaking a public function, in order to prevent and detect fraud.

The Cabinet Office is responsible for carrying out data matching exercises.

Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified. Where a match is found it may indicate that there is an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out.

The Council participates in the Cabinet Office's National Fraud Initiative: a data matching exercise to assist in the prevention and detection of fraud. It is required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise, as detailed here.

The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under Part 6 of the Local Audit and Accountability Act 2014. It does not require the consent of the individuals concerned under the Data Protection Act 1998.

Data matching by the Cabinet Office is subject to a Code of Practice.

View further information on the Cabinet Office's legal powers and the reasons why it matches particular information. For further information on data matching at this authority contact caft@croydon.gov.uk .

O RESOURCES FOR MEMBERS

1 Croydon Council Pension Website

The Scheme's website can be found at http://www.croydonpensionscheme.org/

2 National Local Government Pension Scheme Website

The website address is www.lgpsmember.org/

It enables all members, potential members and beneficiaries of the Scheme to access Scheme information 24 hours a day, 365 days a year.

The site has a comprehensive range of Scheme information; it is updated regularly to ensure members have access to the latest information.

3 Additional Voluntary Contributions

The Council has appointed Prudential as the Scheme's provider for additional voluntary contributions investment services.
Further information can be obtained by calling their helpline on 0845 434 6629 or by visiting the website www.pru.co.uk/rz/localgov/

Any members' additional voluntary contributions (AVCs) are held in various separate investments administered by Prudential Assurance Company Limited. The benefits arising from these contributions are additional to, and do not form part of, the benefits due under the Local Government Pension Scheme. They are not included in the Pension Fund Accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVCs.

4 Further Information

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex BN1 4DW
Telephone Number: 0845 600 0707 (Monday to Friday 09.00-17.00)
Website: www.thepensionsregulator.gov.uk

The role of the Pensions Regulator has been set out by Parliament, and is to:
- Protect the benefits of members of work-based pension schemes;
- Promote the good administration of work-based pension schemes;
- Reduce the risk of situations arising which may lead to claims for compensation from the Pensions Protection Fund.

The Pensions Advisory Service (TPAS)
11 Belgrave Road

London SW1V 1RB
Telephone Number: 0300 123 1047
Website: www.pensionsadvisoryservice.org.uk

TPAS is available to assist members of pension schemes with any difficulties that they are unable to resolve with their scheme administrators.

The Pensions Ombudsman
At the same address as TPAS
Telephone Number: 020 7630 2200
Website: www.pensions-ombudsman.org.uk

The Pensions Ombudsman can investigate and determine any complaint or disputes between scheme members and administrators, involving maladministration, or matters of fact or law.

The Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton WV98 1LU
Telephone Number: 0345 6002 537
Website: www.gov.uk/find-lost-pension

The Pension Tracing Service can help ex-members of pension schemes, who may have lost touch with their previous employers, to trace their pension entitlements.

Queries relating to the Pension Fund investments can be made to:

The Pensions Section
5A, Bernard Weatherill House
8 Mint Walk
Croydon, CR0 1EA

Tel: 0208 760 5768 ext: 62892
E-mail: pensions@croydon.gov.uk

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5 Members Self Service

Scheme members can view their pension details by logging on to our internet member self service. This service allows scheme members to check their personal details, including service history and financial information, as well as enabling members to carry out their own benefit calculations. Members can also check their record to make sure their nomination for their death grant is correct and, if applicable, that their record is up to date with their nominated co-habiting partner's details.

Members can log in to the service at: https://croydon.pensiondetails.co.uk to register.

Scheme members will be required to register the E-mail address they wish to use by contacting the pensions team.

Croydon Pension Fund 2019/20

31st March 2020

CROYDON
www.croydon.gov.uk

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Notes	2019/20 £'000	2018/19 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions	8	52,208	47,808
Individual Transfers in from Other Pension Funds		14,179	11,584
		66,387	**59,392**
Benefits			
Pensions	9	(46,540)	(43,431)
Commutation, Lump Sum Retirement and Death Benefits	9	(10,310)	(8,923)
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		(10,641)	(5,445)
Refunds to Members Leaving Service		(128)	(349)
		(67,619)	**(58,148)**
Net additions/(withdrawals) from dealings with members		**(1,232)**	**1,244**
Management Expenses	10	**(11,425)**	**(8,167)**
		(12,657)	**(6,923)**
RETURNS ON INVESTMENTS			
Investment Income	11	9,425	5,469
Taxes on Income (Irrecoverable Withholding Tax)	11	0	(1)
Profit and loss on disposal of investments and changes in the market value of investments	13	1,912	120,171
Net returns on investments		**11,337**	**125,639**
Net increase/(decrease) in the Fund during the year		**(1,320)**	**118,716**
Net assets at the start of the year		1,258,159	1,139,443
Net assets at the end of the year		**1,256,839**	**1,258,159**

NET ASSETS STATEMENT	Notes	31 March 2020 £'000	31 March 2019 £'000
Investments held by the Fund Managers:			
Equities - segregated funds	13	150	150
Equities - pooled funds	13	425,959	516,037
Private equity funds	13	114,466	114,703
Infrastructure funds	13	167,135	145,358
Fixed Interest funds	13	288,816	282,419
Pooled Property funds	13	177,291	178,566
Total Investments held by the Fund Managers		1,173,817	1,237,233
Other Balances held by the Fund Managers			
Cash held by the Fund Managers	13	9,809	6,452
Investment income due	13	1,271	1,557
Total Other Balances held by the Fund Managers		11,080	8,009
Total Assets held by the Fund Managers		1,184,897	1,245,242
Current Assets	16	93,415	15,064
Current Liabilities	17	(21,473)	(2,147)
Net Assets of the fund available to fund benefits		**1,256,839**	**1,258,159**

The fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial position of the fund which does take into account such obligations is dealt with in note 22.

1. GENERAL INFORMATION

In addition to acting as a Local Authority, Croydon Council administers the Local Government Pension Scheme. As a Local Authority it is accountable to the residents of the London Borough of Croydon for its stewardship of public funds. As an administering authority for the LGPS it is accountable both to employees who are members of the Pension Fund, and to past employees in receipt of a pension, for its stewardship of pension assets. The two roles, and the relevant interest groups, are significantly different. Consequently, the Pension Fund accounts are presented as a supplementary statement to clearly demonstrate the distinction.

The London Borough of Croydon Pension Fund (the Fund) operates a contributory Career Average Revalued Earnings (CARE) scheme whose purpose is to provide benefits to all of the Council's employees, with the exception of teaching and NHS staff, and to the employees of admitted and scheduled bodies who are members of the Fund. These benefits include retirement pensions and lump sums, ill-health retirement benefits and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:
the Local Government Pension Scheme Regulations 2013, (as amended);
the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, (as amended);
the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The financial statements have been prepared in accordance with the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice on Local Authority Accounting in the United Kingdom is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Below is a list of the admitted and scheduled bodies contributing to the Fund:

Admitted:
AXIS Europe plc (Housing Repairs), Brick by Brick Croydon Limited, Capita Secure Information Solutions Limited, Conway Construction & Training Ltd, Churchill Services Limited, Croydon Citizen's Advice Bureau, Croydon Equipment Services Limited, Croydon Community Mediation, Croydon Voluntary Action, Ground Control Limited, Impact Group Limited, Keyring Living Support Networks, London Hire Services Limited, Octavo Partnership Limited, Hats Group Ltd, Olive Dining Limited, Roman Catholic Archdiocese of Southwark, Skanska Construction UK Limited, Sodexo Limited, National Cleaning Service Limited, Veolia Environmental Services (UK) Recycling Limited (Croydon), Vinci Facilities Limited, Veolia Environmental Services (UK) Recycling Limited (SLWP1) & (SLWP2), Wallington Cars & Couriers Limited, Westgate Cleaning Services Limited, Arthur Mckay Limited, Greenwich Leisure Limited, Idverde Limited

Scheduled:
Meridian (Addington) High Academy, Aerodrome Primary Academy, Applegarth Academy, The Archbishop Lanfranc School, ARK Oval Primary Academy, Atwood Primary School, BRIT School, Broadmead Primary Academy, Castle Hill Academy, Chesnut Park Primary School, Chipstead Valley Primary School, Coulsdon College, Crescent Primary Academy, Croydon College, David Livingstone Academy, Orchard Park High School, Fairchildes Academy Community Trust, Forest Academy, Gonville Academy, Good Shepherd Catholic Primary, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Purley Way) Harris City Academy (Crystal Palace), Harris Primary Academy (Benson), Harris Primary Academy (Kenley), Harris Invictus Academy Croydon, Harris Primary Academy Haling Park, Heathfield Academy, New Valley Primary, Norbury Manor Business and Enterprise College, Oasis Academy Byron, Oasis Academy Arena, Oasis Academy Coulsdon, Oasis Academy Ryelands, Oasis Academy Shirley Park, Pegasus Academy Trust, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Rowdown Primary School, Shirley High School Performing Arts College, South Norwood Academy, St Chad's Catholic Primary School, Davidson Primary Academy, Krishna Avanti Primary School, St Cyprian's Greek Orthodox Primary School Academy, St James the Great RC Primary and Nursery School, St Joseph's College, St Mark's COE Primary School, St Mary's Infants School, St Mary's Junior School, St Thomas Becket Catholic Primary School, Winterbourne Junior Boys, West Thornton Primary Academy, Wolsey Junior Academy, Paxton Academy, Woodcote High School, The Woodside Academy, STEP Academy Trust, St Aidans Catholic Primary, Kingsley Primary Academy
Folio Education Trust, Courtwood Primary, Monks Orchard Primary, Keston Primary, Glibert Scott, Manor Trust
The Beckmead Trust, Tudor Academy

1. GENERAL INFORMATION (continued)

Management of the Fund

The London Borough of Croydon has a statutory responsibility to administer and manage the London Borough of Croydon Pension Fund on behalf of all the participating employers of the Fund in Croydon and the past and present contributing members and their dependents.

The Council is also responsible for making decisions governing the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Committee. The Pension Committee's responsibilities include reviewing and monitoring the Fund's investments: selecting and deselecting investment managers and other relevant third parties and establishing investment objectives and policies. The Pension Committee is made up of eight voting Members of the Council, two pensioner representatives (one voting), and a non-voting employee representative.
In addition, the Committee is supported by officers and external advisors.

2. INVESTMENT STRATEGY STATEMENT

This is published on the Croydon Pension Scheme web page
http://www.croydonpensionscheme.org/croydon-pension-fund/about-us/forms-and-publications

3. BASIS OF PREPARATION

Going Concern

The Pension Fund Accounts have been prepared on a going concern basis. That is the accounts assume that the Fund will continue in operational existence for the foreseeable future. This means, in particular, that the accounts assume that there is no intention to curtail significantly the scale of operations.

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 gives administering authorities the option to disclose information about retirement benefits by reference to the actuarial report. Note 22 refers.

Note 1 (general information) above refers to the International Financial Reporting Standards applicable to this set of accounts. There are no standards issued that have not been adopted in preparation of this statement of accounts.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for in accordance with the agreement under which they are being paid. Pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

- **Interest income**: Interest income is recognised in the fund account as it accrues.
- **Dividend income**: Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- **Distributions from pooled funds**: Distributions from pooled funds are recognised by our fund managers at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a financial asset.
- **Movement in the net market value of investments**: Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are recharged at year end from the Authority to the Pension Fund.

Oversight and Governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged to the Fund.

The cost of obtaining investment advice from the external advisors is included in oversight and governance costs.

Investment management expenses

All investment management expenses are accounted for an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. A proportion of the Council's costs representing management time spent by officers on investment management are recharged to the Fund.

Financial assets

A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. The majority of the Fund's financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. Any gains and losses arising from changes in the fair value are recognised in the change in market value in the Fund Account.
Quoted securities and Pooled Investment Vehicles have been valued at bid price. Quoted securities are valued by the Fund's custodian; Bank of New York Mellon. Pooled Investments, Private Equity Funds, Infrastructure Funds and Pooled Property Funds are quoted by their fund managers.
Loans and receivables consist of cash at bank, other balances investment balances and contributions receivable. They are initially recognised at fair value and subsequently at amortised cost. Impairment losses are recognised where appropriate, although no impairment has been deemed necessary.

Derivatives

Derivatives are valued at fair value on the following basis: assets at bid price and liabilities at offer price.
Changes in the fair value are included in the change in market value in the Fund account.
The value of open futures contracts is determined using exchange prices at the reporting date.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the year end.

Cash and cash equivalents

Cash comprises cash in hand and term deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted by the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (see Note 22).

Additional voluntary contributions
The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential plc as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 21).

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability
The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted private equity and infrastructure investments
It is important to recognise the highly subjective nature of determining the fair value of many private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving factors which include the valuations of companies deemed comparable to the asset being valued, the future cash flow expectations and discount factors used.

Covid-19 impact
The ongoing impact of Covid-19 has created even greater uncertainty in establishing the asset values of illiquid assets. It should be noted that at the reporting date 36.5% of the Fund's assets are illiquid in nature.

6. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year.

Actuarial present value of promised retirement benefits
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the fund managers with expert advice about the assumptions to be applied.

The effects on the net pension liability can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £171m. A 0.5% increase in the salary increase assumption would result in a £11m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £159m increase to the pension liability.

Unquoted private equity and infrastructure investments
Due to the nature of private equity and infrastructure assets it is difficult to assess their true value until the assets are realised. Assumptions are made in the valuation of Unquoted private equities and infrastructure investments. Investment managers use the guidelines published by various bodies including the Financial Accounting Standards Board, the British Venture Capital Association and the Institutional Limited Partners Association.
The value of unquoted private equities and infrastructure at 31 March 2020 was £282m (2019: £260m).
There is a risk that these investments may be under or overstated in the accounts, although it is considered unlikely to have a material impact on the value of the Fund.

Property and Infrastructure Funds
The ongoing impact of the COVID-19 pandemic has created an unprecedented set of circumstances on which to base judgement. As such, the Fund property and infrastructure allocations as at 31 March 2020, are difficult to value according to preferred accounting policy. Valuations are therefore reported on the basis of ‘material valuation uncertainty’ Consequently, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 2019 which calculated the total accrued liabilities to be £1,423m (2016: £1,203m). The market value of the Fund's assets at the valuation date was £1,258m (2016: £877m). The Fund deficit was therefore £165m (2016: £326m) producing a funding level of 73% (2016: 73%). The next triennial valuation will be effective as at 31 March 2022.

The contribution rates payable for 2019/20 were set at the Actuarial Valuation effective 31 March 2016.

The table below shows the contribution rates payable by each employer for 2019/20:

	% of pay	Additional sum £
London Borough of Croydon Pool		
London Borough of Croydon	16.1	*
Octavo Partnership Limited	16.1	6,000
Further Education Bodies		
Croydon College	17.5	793,000
Coulsdon College	18.3	60,000
(Community) Admission Bodies		
Croydon Voluntary Action	18.9	38,000
Croydon Citizens Advice Bureau	30.6	6,000
Croydon Community Mediation	18	4,000
Admission Bodies		
Impact Group Limited	19.6	-
London Hire Services Limited	19.2	-
Churchill Services Limited	19.7	-
Veolia Environmental Services (UK) Recycling Limited (Croydon)	21.7	-
Fusion Lifestyle	22.5	-
Hats Group Ltd	29.8	-
Wallington Cars & Couriers Limited	15.5	-
Vinci Facilities Limited	0	-
Skanska Construction UK Limited	21.2	-
Sodexho Limited	15	-
Ground Control Limited	0	-
Carillion Integrated Services Limited	20.7	-
Quadron Services Limited	27.1	-
AXIS Europe plc (Housing Repairs)	25.5	-
Capita Secure Information Solutions Limited	24.6	-
Keyring Living Support Networks	28.6	-
Westgate Cleaning Services Limited	30	-
Veolia Environmental Services (UK) Recycling Limited (SLWP1)	15.5	-
Roman Catholic Archdiocese of Southwark	31.4	-
Croydon Equipment Services Limited	15.1	-
Arthur Mckay Limited	30.2	-
Greenwich Leisure Limited	19.9	-
Nationwide Cleaning Services Limited	34.2	-
Brick by Brick Croydon Limited	20.7	-
Conway Construction & Training Ltd	32.2	-
Olive Dining Limited	29.1	-

* The London Borough of Croydon paid a lump sum of £33,192,000 to the Fund during 16/17. This payment was sufficient to meet in full the monetary elements of £11,795,000 p.a. that were due as the Secondary Rates over three years.

Academies	% of pay	Additional sum £
Harris Academy (South Norwood)	16.8	12,000
BRIT School	16.6	22,000
Harris City Academy (Crystal Palace)	15.2	-
St Joseph's College	18.7	32,000
St Cyprian's Greek Orthodox Primary School	18.7	7,000
Norbury Manor Business and Enterprise College	18.2	29,000
Woodcote High School	18.8	40,000
St James the Great R.C Primary	20.0	41,000
Meridian (Addington) High Academy	18.5	29,000
Riddlesdown Collegiate	18.1	57,000
Shirley High School of Performing Arts College	18.3	34,000
Oasis Academy Byron	18.7	8,000
Robert Fitzroy Academy	15.5	300
St Thomas Becket RC Primary	19.6	15,000
Aerodome Primary Academy	17.7	12,000
Oasis Academy Coulsdon	18.0	48,000
Oasis Academy Shirley Park	18.0	83,000
Harris Academy (Purley)	17.3	35,000
The Quest Academy	17.4	33,000
ARK Oval Primary Academy	18.2	2,000
Pegasus Academy Trust	17.2	52,000
Gonville Academy	18.4	12,000
West Thornton Primary Academy	18.1	26,000
David Livingstone Academy	17.2	-
Applegarth Academy	18.2	11,000
Harris Primary Academy Benson	19.9	22,000
Harris Academy Primary Kenley	18.5	7,000
Forest Academy	18.1	9,000
Castle Hill Academy	18.5	18,000
Wolsey Junior Academy	18.1	24,000
Atwood Primary School	19.1	21,000
Winterbourne Junior Boys	19.8	19,000
Oasis Academy Ryelands	18.1	32,000
Chipstead Valley Primary School	18.7	31,000
Fairchildes Primary School	17.8	61,000
Broadmead Primary Academy	18.1	56,000
Rowdown Primary School	18.9	19,000
St Mark's COE Primary School	17.8	11,000
New Valley Primary	18.5	10,000
Archbishop Lanfranc School	19.4	107,000
Harris Invictus Academy Croydon	17.4	-
Harris Primary Academy Haling Park	15.2	-
Paxton Academy	15.0	-
Edenham High School	18.6	117,000
St Mary's Infants School	19.1	34,000
St Mary's Junior School	18.5	16,000
Heathfield Academy	16.8	-
Crescent Primary Academy	16.6	16,000
Oasis Academy Arena	15.9	2,000
Good Shepherd Catholic Primary	17.5	30,000
South Norwood Academy	17.9	37,000
Chesnut Park Primary School	15.9	-
St Chad's Catholic Primary School	26.9	49,604
St Aidan's Catholic Primary School	25.9	14,939
Davidson Primary School	26.0	48,690
Krishna Avanti Primary School	19.1	-
The Woodside Academy	29.4	64,471
Kingsley Primary Croydon	19.2	77,000
STEP Academy Trust	18.4	-
Harris Purley Way	23.9	-
Tudor Primary Academy	19.2	26,000
Folio Education Trust	18.8	-
Courtwood	15.1	-
Monks Orchard	21.8	19,000
Keston Primary	20.1	19,000
Gilbert Scott	15.1	-
Manor Trust	18.2	-
The Beckmead Trust	18.2	-

Employees in the scheme are required by the Local Government Pension Scheme Transitional Regulations 2014 to make contributions to the Fund by deductions from earnings. The contribution rate payable is determined by the pay band applicable to each individual employee.
The pay bands for 2019/20 are detailed below:

Band	2019/20 Range £	Contribution Rate %
1	0 -14,400	5.5%
2	14,401-22,500	5.8%
3	22,501-36,500	6.5%
4	36,501-46,200	6.8%
5	46,201-64,600	8.5%
6	64,601-91,500	9.9%
7	91,501-107,700	10.5%
8	107,701-161,500	11.4%
9	161,501+	12.5%

Membership of the Fund consists of current and ex-employees not of pensionable age, retired employees and dependants.

	2019/20	2018/19	% change
Contributing members	10,064	9,811	2.6%
Deferred pensioners	10,923	10,936	(0.1%)
Pensioners	8,285	7,903	4.8%
Total	29,272	28,650	2.2%

8. CONTRIBUTIONS

By Authority:	2019/20 £'000	2018/19 £'000
Administering Authority	32,766	29,591
Scheduled bodies	15,813	14,242
Admitted bodies	3,629	3,975
	52,208	47,808

By Type	2019/20 £'000	2018/19 £'000
Employees normal contributions	13,965	12,746
Employers:		
Normal contributions	34,759	30,679
Deficit recovery contributions	2,616	2,488
Augmentation contributions	868	1,895
	52,208	47,808

9. BENEFITS

By Authority	2019/20 £'000	2018/19 £'000
Administering Authority	48,945	45,902
Scheduled bodies	3,542	2,954
Admitted bodies	4,363	3,498
	56,850	52,354

By Type	2019/20 £'000	2018/19 £'000
Pensions	46,540	43,431
Commutation and lump sum retirement benefits	9,076	8,248
Lump sum death benefits	1,234	675
	56,850	52,354

10. MANAGEMENT EXPENSES

	2019/20 £'000	2018/19 £'000
Administration	1,676	1,083
Oversight and Governance	1,041	674
Investment management	8,708	6,410
	11,425	8,167

Included in oversight and governance expenses is £25,000 (2019: £16,170) in respect of audit fees. Some investment managers charge fees within the fund's net asset value and these (implicit) fees are not easily identifiable. Investment management fees have been adjusted to reflect the implicit fees charged by managers and a corresponding adjustment has been made to the change in market value. For 2020 the implicit fee was £7,949,000 (2019: £5,776,000) Included in the investment management expenses are £801,571 (2019: £108,000) in respect of transaction costs.

11. INVESTMENT INCOME

	2019/20 £'000	2018/19 £'000
Equity dividends- segregated funds	(10)	(6)
Pooled Equity Income	676	152
Pooled Fixed Income	3,064	206
Pooled Property funds income	5,462	5,048
Interest on cash deposits	233	69
Total before taxes	9,425	5,469
Taxes on income		(1)
Total	9,425	5,468

12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	Legal and General Investment Management Limited (LGIM) and London LGPS CIV Limited underlying manager Henderson Global Investors (LCIV Henderson)
Private equity	Knightsbridge Advisors LLC, Pantheon Ventures LLP, Access Capital Partners and North Sea Capital
Infrastructure	Equitix Limited, Temporis Capital Limited and Green Investment Group Management Limited (GIGM), Access Capital Partners, I-Squared Capital
Fixed Interest	Aberdeen Standard Investments, Wellington Management Company LLP and London LGPS CIV Limited underlying manager PIMCO (LCIV PIMCO)
Property	Schroder Investment Management Limited and M&G Investment Management Limited
Cash	Cash is invested by the in-house team

All managers have discretion to buy and sell investments within the constraints set by the Pension Committee and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The Pension Committee has authorised the Executive Director of Resources and Section 151 Officer to exercise delegated powers to vary the Pension Fund's target asset allocation between asset classes as is deemed necessary.

The market value and proportion of investments managed by each fund manager at 31 March 2020 was as follows

	2020 Market £'000	2020 Market %	2019 Market £'000	2019 Market %
LGIM	425,959	36.2%	457,993	37.0%
London LGPS CIV Limited (LCIV)	150	0.0%	150	0.0%
LCIV PIMCO	84,104	7.2%	84,066	6.7%
LCIV Janus Henderson	----	0.0%	58,044	4.7%
Pantheon Ventures LLP (Pantheon)	60,899	5.2%	66,559	5.4%
Knightsbridge Advisors LLC (Knightsbridge)	35,581	3.0%	30,692	2.5%
Access Capital Partners (Access)	32,673	2.8%	28,095	2.3%
North Sea Capital	4,829	0.4%	3,069	0.2%
I-Squared Capital	18,619	1.6%	7,132	0.6%
Equitix Limited	78,071	6.7%	65,140	5.3%
Temporis Capital Limited (Temporis)	28,627	2.4%	34,367	2.8%
Green Investment Bank (GIGM)	22,302	1.9%	25,007	2.0%
Aberdeen Standard Investments (Aberdeen)	132,328	11.3%	131,228	10.6%
Wellington Management Company LLP (Wellington)	72,385	6.2%	67,125	5.4%
Schroder Investment Management Limited (Schroders)	115,351	9.8%	118,321	9.6%
M&G Investment Management Limited (M&G)	61,939	5.3%	60,245	4.9%
Total investments	**1,173,817**	**100.0%**	**1,237,233**	**100.0%**

13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2019	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Equities - segregated funds	150	0	0	0	150
Equities - pooled funds	516,037	250,360	(318,229)	(22,209)	425,959
Private equity funds	114,703	9,728	(23,500)	13,535	114,466
Infrastructure funds	145,358	31,933	(19,226)	9,070	167,135
Fixed Interest funds	282,419	3,129	(1,282)	4,550	288,816
Pooled Property funds	178,566	5,359	(3,533)	(3,101)	177,291
	1,237,233	**300,509**	**(365,770)**	**1,845**	**1,173,817**
Cash deposits	6,452			67	9,809
Investment income due	1,557				1,271
Net investment assets	**1,245,242**	**300,509**	**(365,770)**	**1,912**	**1,184,897**

Included in the purchases and sales figures of equities in pooled funds is £249,922,223 which relates to a switch from the LGIM FTSE World Developed ExTobacco Index (unhedged) to the LGIM FTSE World Developed ExTobacco Index (hedged).

	Market value 01 April 2018	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Equities - segregated funds	150				150
Equities - pooled funds	578,812	119,902	(251,204)	68,527	516,037
Private equity funds	95,253	14,160	(17,343)	22,633	114,703
Infrastructure funds	113,728	28,837	(13,034)	15,827	145,358
Fixed Interest funds	192,407	80,264	(744)	10,492	282,419
Pooled Property funds	134,352	49,133	(7,585)	2,666	178,566
	1,114,702	**292,296**	**(289,910)**	**120,145**	**1,237,233**
Cash deposits	8,603			26	6,452
Investment income due	1,465				1,557
Amounts payable for purchases					-
Net investment assets	**1,124,770**	**292,296**	**(289,910)**	**120,171**	**1,245,242**

14. ANALYSIS OF INVESTMENTS

		2020 UK £'000	2020 Foreign £'000	2020 Total £'000	2019 UK £'000	2019 Foreign £'000	2019 Total £'000
Equities-segregated funds							
London CIV	Unquoted	150	-	150	150	-	150
Total equities		150	-	150	150	-	150
Equities - pooled funds							
LGIM	unit trust	-	425,959	425,959	-	457,993	457,993
Emerging market equities - pooled funds							
LCIV Janus Henderson	managed fund	-	-	-	-	58,044	58,044
Total equities - pooled investments		-	425,959	425,959	-	516,037	516,037
Private equity funds							
Pantheon	managed fund	-	60,899	60,899	-	66,559	66,559
Knightsbridge	managed fund	-	35,581	35,581	-	30,692	30,692
Access	managed fund	-	13,157	13,157	-	14,383	14,383
North Sea Capital	managed fund	-	4,829	4,829	-	3,069	3,069
Total private equity funds		-	114,466	114,466	-	114,703	114,703
Infrastructure funds							
Equitix Limited	managed fund	78,071	-	78,071	65,140	-	65,140
Temporis	managed fund	27,322	1,305	28,627	34,367	-	34,367
GIGM	managed fund	22,302	-	22,302	25,007	-	25,007
Access	managed fund	-	19,516	19,516	-	13,712	13,712
I Squared	managed fund	-	18,619	18,619	-	7,132	7,132
Total infrastructure funds		127,695	39,440	167,135	124,514	20,844	145,358
Fixed interest funds							
Aberdeen	unit trust	132,328	-	132,328	131,228	-	131,228
Wellington	managed fund	-	72,385	72,385	-	67,125	67,125
LCIV PIMCO	managed fund	-	84,104	84,104	-	84,066	84,066
Total Fixed Interest funds		132,328	156,489	288,817	131,228	151,191	282,419
Pooled property funds							
Schroders	managed fund	115,351	-	115,351	118,321	-	118,321
M&G	managed fund	61,939	-	61,939	60,245	-	60,245
Total pooled property funds		177,290	-	177,290	178,566	-	178,566
Total investments		**437,463**	**736,354**	**1,173,817**	**434,458**	**802,775**	**1,237,233**

15. INVESTMENTS EXCEEDING 5% OF THE MARKET VALUE OF THE FUND

	2020 Market £'000	2020 % of Total Net assets	2019 Market £'000	2019 % of Total Net assets
Standard Life SLI Absolute Return Global Bond Strategies	66,659	5.3%	66,221	5.3%
Standard Life Corporate Bond	65,669	5.2%	65,007	5.2%
Wellington Sterling Core Bond Plus Portfolio	72,385	5.8%	67,125	5.3%
LCIV PIMCO Global Bond Fund	84,104	6.7%	84,066	6.7%
LGIM FTSE Ex Tobacco World Equity Index	425,959	33.9%	457,993	36.4%

16. CURRENT ASSETS

	2020 £'000	2019 £'000
Cash balances	82,124	5,528
Other Local Authorities - Croydon Council	7,462	6,245
Other Entities and Individuals	3,829	3,291
	93,415	15,064

17. CURRENT LIABILITIES

	2020 £'000	2019 £'000
Other Local Authorities - Croydon Council	(19,612)	(862)
Other entities and individuals	(1,861)	(1,285)
	(21,473)	(2,147)

The amount due to Croydon Council relates to transactions between the Fund and the Council all of which were settled through the Pension Fund bank account after the year end.

18. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES

Related Parties

Related parties include:

a. Councillors and their close families
b. certain Officers and Managers
c. entities controlled by, and associates and joint ventures of, the Scheme itself
d. companies and businesses controlled by the Councillors or their close families

Councillor Hall, the Vice Chair of the Pensions Committee is the Council Shareholder Representative for the London LGPS CIV Limited.

Officers and Managers

Related parties under this heading include:

a. key management (senior officers) of the Fund and their close families
b. companies and businesses controlled by the key management of the Fund, or their close families.

The key management personnel of the fund during the year were the Director of Finance, Investment and Risk (Section 151 Officer) and the Head of Pensions and Treasury.

During the year a charge of £124k (2019: £125k) was made to the Fund for their services.

The only other financial relationship that either Councillors or officers and managers have with the Fund is as prospective or actual pensioners for those who are scheme members. For further details please refer to Note 33 of the London Borough of Croydon's Statement of Accounts 2019/20.

19. DETAILS OF STOCK RELEASED TO THIRD PARTIES UNDER A STOCK LENDING ARRANGEMENT

There was no stock released to third parties under a stock lending arrangement.

20. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £102.3m at 31 March 2020 (2019:£93.9m) based on:

USD 46.4m at exchange rate 1.24 equals £37.4m (2019: £50.7m)
EUR 48.4m at exchange rate 1.13 equals £42.8m (2019: £35.1m)
GBP £22.1m (2019: £8.1m)

These commitments related to outstanding call payments due on Private Equity, Infrastructure and Property investments. The amounts 'called' by these funds are both irregular in size and timing over a period of usually 3 to 6 years from the date of the original commitment.

21. DETAILS OF ADDITIONAL CONTRIBUTIONS NOT INCLUDED IN PENSION FUND ACCOUNTS

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), there were no additional contributions included in the Pension Fund Accounts since all Additional Voluntary Contributions (AVCs), in total £172,017 for 2019/20 (£172,000 in 2018/19), are sent directly to the relevant AVC provider.
The value at 31 March 2020 of separately invested additional voluntary contributions was £1.72m (£1.81m in 2018/19).

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

London Borough of Croydon Pension Fund ('the Fund) Actuarial Statement for 2019/20
This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy
The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated April 2020. In summary, the key funding principles are as follows:

- 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 (this will also minimise the costs to be borne by Council Tax payers);
- 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.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation
The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £1,258 million, were sufficient to meet 88% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £165 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2019 valuation report.

Method
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 Mar 2019
Discount rate	4.0%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Aged 45 at the 2019 Valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Robert McInroy
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Pension Fund Accounts Reporting Requirement
Introduction
CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Croydon Pension Fund ('the Fund').

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in pension fund accounts:

► showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;

► as a note to the accounts; or

► by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 Mar 2020 £m	31 Mar 2019 £m
Active members	624	853
Deferred members	478	486
Pensioners	732	683
Present Value of Promised Retirement Benefits*	1,834	2,022

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 (and 31 March 2019) include an allowance for the “McCloud ruling”, i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £183m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £46m.

Financial Assumptions

Year ended	31 Mar 2020 %p.a.	31 Mar 2019 %p.a.
Pensions Increase Rate	1.9%	2.5%
Salary Increase Rate	1.9%	3.0%
Discount Rate	2.3%	2.4%

Longevity Assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.9 years	23.9 years
Future Pensioners (assumed to be age 45 at the latest formal	22.5 years	25.3 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation Assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivies regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% increase in Pensions Increase Rate	9%	159
0.5% increase in Salary Increase Rate	1%	11
0.5% decrease in the Real Discount Rate	9%	171

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional Notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Robert McInroy FFA

29-Jun-20

For and on behalf of Hymans Robertson LLP

23. EVENTS AFTER THE REPORTING PERIOD

During the first quarter after the reporting period global markets recovered to some degree and the Fund has experienced a gain of between 5-10%. The economic environment remains extremely uncertain due to Covid-19 and this uncertainty is expected to continue for the foreseeable future. The diversification of the Fund's assets has meant that the Fund has been fairly resilient to date and is well placed to deal with the headwinds ahead.

24. FINANCIAL INSTRUMENTS

Below is the target asset allocation agreed by Pension Committee and in force during 2019/20

Asset Class	Benchmark	Weighting
UK and Overseas Listed Equities	FTSE Dev ex Tobacco NetTax (UKPN)	42% + / - 5%
Fixed Interest Securities	Bank of America Merrill Lynch Sterling non gilts all stocks index Bank of America Merrill Lynch Sterling Broad Market index Barclays Aggregate - Credit Index Hedged (GBP)	23% + / - 3%
Property	IPD All Properties index	10% + / - 3%
Private Rental Sector Property	IPD All Properties index	6%
Private Equity	CPI +5%	8%
Infrastructure	CPI +5%	10%
Cash and Short Term Deposits		1%
Total		**100%**

24. FINANCIAL INSTRUMENTS (Continued)

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. heading. The carrying value for Pension Funds is the same as the Fair Value.

31 March 2020

	Designated as fair value through profit and loss £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	288,816	-	-
Equities - segregated funds	150	-	-
Pooled property funds	177,291	-	-
Private equity funds	114,466	-	-
Infrastructure funds	167,135	-	-
Global equities - pooled investments	425,959	-	-
Other investment balances	-	11,080	-
Current Assets	-	93,415	-
Total Financial Assets	**1,173,817**	**104,495**	**-**
Financial Liabilities			
Current liabilities	-	-	(21,473)
Total Financial Liabilities	**-**	**-**	**(21,473)**
Net Assets	**1,173,817**	**104,495**	**(21,473)**

31 March 2019

	Designated as fair value through profit and loss £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	282,419	-	-
Equities - segregated funds	150	-	-
Pooled property investments	178,566	-	-
Private equity funds	114,703	-	-
Infrastructure funds	145,358	-	-
Global equities - pooled investments	516,037	-	-
Other investment balances	-	8,009	-
Current Assets	-	15,064	-
Total Financial Assets	**1,237,233**	**23,073**	**-**
Financial Liabilities			
Current liabilities	-	-	(2,147)
Total Financial Liabilities	**-**	**-**	**(2,147)**
Net Assets	**1,237,233**	**23,073**	**(2,147)**

24. FINANCIAL INSTRUMENTS (Continued)

Net Gains and Losses on Financial Instruments

	31 March 2020 £'000	31 March 2019 £'000
Financial assets		
Designated at fair value through profit and loss	1,845	120,145
Financial assets at amortised cost	67	26
	1,912	**120,171**
Financial liabilities		
Designated at fair value through profit and loss	-	-
Financial liabilities at amortised cost	-	-
	-	**-**
Total	**1,912**	**120,171**

Valuation of financial instruments carried at fair value
The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level One
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level Two
Financial instruments at Level 2 are those whose quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.
The pooled investment vehicles for global equities and fix interest funds are classified as Level 2 as the fund valuations are based on the market prices of the underlying investments using evaluated price feeds.

Level Three
Financial instruments at Level 3 are those where at least one input, that could have a significant effect on the instrument's valuation, is not based on observable market data.

These instruments include various unquoted equity investments, Private Equity Funds, Infrastructure Funds and Pooled Property Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity and infrastructure funds are based on valuations provided by the General Partners to the funds in which the London Borough of Croydon Pension Fund has invested.

The General Partners use a variety of methods and assumptions based on market conditions existing at the statement of financial position date which is usually at the end of December. Valuations are then rolled forward to the 31 March.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December.

Valuations in Pooled Property Funds are carried out by qualified surveyors with relevant qualifications from the Royal Institute of Chartered Surveyors. All assets have been classified as level 3 as the inputs are considered to be unobservable and developed by the valuer using best information available where there is little or no market activity at the valuation date.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

24. FINANCIAL INSTRUMENTS (Continued)

Values at 31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at fair value through profit and loss				
Fixed Interest funds		288,816		288,816
Global equities - segregated funds			150	150
Pooled property investments			177,291	177,291
Private equity funds			114,466	114,466
Infrastructure funds			167,135	167,135
Global equities - pooled investments		425,959		425,959
Financial Assets at amortised cost				
Other investment balances	11,080			11,080
Current Assets	93,415			93,415
Total Assets	104,495	714,775	459,042	1,278,312
Financial Liabilities at amortised cost				
Current liabilities	**(21,473)**	-	-	**(21,473)**
Net financial assets	**83,022**	**714,775**	**459,042**	**1,256,839**

Values at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at fair value through profit and loss				
Fixed Interest funds		282,419		282,419
Global equities - segregated funds			150	150
Pooled property funds			178,566	178,566
Private equity funds			114,703	114,703
Infrastructure funds			145,358	145,358
Global equities - pooled investments		516,037		516,037
Financial Assets at amortised cost				
Other investment balances	8,009			8,009
Current Assets	15,064			15,064
Total Assets	23,073	798,456	438,777	1,260,306
Financial Liabilities at amortised cost				
Current liabilities	**(2,147)**	-	-	**(2,147)**
Net financial assets	**20,926**	**798,456**	**438,777**	**1,258,159**

24. FINANCIAL INSTRUMENTS (Continued)

Fair Value- Basis of Valuation

The basis of the valuation of each class of investment is set out in the table below. There has been no change in valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Asset type	Valuation hierarchy level	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting valuations
Pooled global equities	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Fixed income funds	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled property funds	Level 3	Closing bid price where bid and offer prices are published. Valuations of properties within the funds are carried out by qualified chartered surveyors with the relevant qualification from the Royal Institution of Chartered Surveyors.	Direct comparison with sales of similar properties. Discount rates and cash flow projections as part of income capitalisation approach.	Real Estate values can be affected by a number of factors including changes to global or local economic conditions, financial conditions of tenants, availability of debt financing, changes in interest rates, operational expenses, planning and environmental laws and other government legislation.
Private equity	Level 3	Annually at fair value using the net asset value per share (or its equivalent) as a practical expedient (ASC Topic 820, Fair Value Measurement) or market approach in accordance with International Private Equity and Venture Capital Valuation Guidelines.	Discount rates and futures cash flow projections. Evaluation based on recent market activity of comparable companies.	Events which can affect the assumptions and inputs used in determining valuations. These . include risk-free and benchmark interest rates, credit spreads and inflation rates. Expected price volatilities and correlations
Infrastructure	Level 3	Annually at fair value in accordance with IFRS 13 and International Private Equity and Venture Capital Valuation Guidelines	Discount rates and futures cash flow projections. Evaluation based on recent market activity of comparable companies.	Events which can affect the assumptions and inputs used in determining valuations. These include risk-free and benchmark interest rates, credit spreads and inflation rates. Expected price volatilities and correlations.

24. FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Fair Value Measurements within Level 3 assets

2019/2020	Market value 01 April 2018 £'000	Transfers to Level 3 £'000	Transfers out of Level 3 £'000	Purchases £'000	Sales £'000	realised gains/losses £'000	Unrealised gains/losses £'000	Market value 31 March 2019 £'000
Private Equity Funds	114,703			9,728	(23,500)	23,500	(9,965)	114,466
Infrastructure Funds	145,358			31,933	(19,226)	19,226	(10,156)	167,135
Pooled Property Funds	178,566			5,359	(3,533)	3,533	(6,634)	177,291
Unquoted Equity	150							150
Total assets	438,777	----	----	47,020	(46,259)	46,259	(26,755)	459,042

2018/2019	Market value 01 April 2018 £'000	Transfers to Level 3 £'000	Transfers out of Level 3 £'000	Purchases £'000	Sales £'000	realised gains/losses £'000	Unrealised gains/losses £'000	Market value 31 March 2019 £'000
Private Equity Funds	95,253			14,160	(17,343)	17,343	5,290	114,703
Infrastructure Funds	113,728			28,837	(13,034)	13,034	2,793	145,358
Pooled Property Funds	134,352			49,133	(7,585)	7,585	(4,919)	178,566
Unquoted Equity	150							150
Total assets	343,483	----	----	92,130	(37,962)	37,962	3,164	438,777

Sensitivity analysis of Level 3 assets

Due to the increased uncertainty brought about by Covid-19, 10% has been used to measure the sensitivity of all level 3 assets. For 2019 the bid/offer spread of 5% for Pooled Property Funds was used for all level 3 assets.

Level 3 Asset	Market value 31 March 2020 £'000	Value on Increase £'000	Value on Decrease £'000
Private Equity Funds	114,466	125,913	103,019
Infrastructure Funds	167,135	183,849	150,422
Pooled Property Funds	177,291	195,020	159,562
Unquoted Equity	150	165	135
Total	**459,042**	**504,946**	**413,138**

Level 3 Asset	Market value 31 March 2019 £'000	Value on Increase £'000	Value on Decrease £'000
Private Equity Funds	114,703	120,438	108,968
Infrastructure Funds	145,358	152,626	138,090
Pooled Property Funds	178,566	187,494	169,638
Unquoted Equity	150	158	143
Total	**438,777**	**460,716**	**416,838**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions. A risk register is maintained and reviewed bi-annually.

Market Risk
This is the risk that financial loss could arise as a result of fluctuations in interest rates, foreign exchange rates, credit spreads and equity and commodity prices. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general,excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk
Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuers or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Price risk - sensitivity analysis

The following table demonstrates the change in net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	Value £'000	Value on Increase £'000	Value on Decrease £'000
At 31 March 2019	1,237,233	1,360,956	1,113,510
At 31 March 2020	**1,173,817**	**1,291,199**	**1,056,435**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate risk is monitored and assessed against the strategic asset allocation benchmark.

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Fixed interest funds, cash at bank and cash held by Fund managers are exposed to interest rate risk.

Assets exposed to interest rate risk	**Value £'000**	**Value on 1% Increase £'000**	**Value on 1% Decrease £'000**
At 31 March 2019	294,399	264,959	323,839
At 31 March 2020	**380,749**	**376,942**	**384,556**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling (£GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than £GBP.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

During the year 50% of the equities held by LGIM were fully hedged to £GBP.

Currency exposure - asset type	**Asset Value as at 31 March 2020 £'000**
Overseas equities securities (unhedged portion)	212,221
Overseas Private Equity and Infrastructure	153,906
Overseas fixed interest	156,489
Overseas Private Equity and Infrastructure (outstanding commitments)	80,202
Total assets	602,818

Currency risk - sensitivity analysis

The following table demonstrates the change in value of overseas assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Assets exposed to currency risk	**Value £'000**	**Value on 10% weakening of pound £'000**	**Value on 10% strengthening of pound £'000**
At 31 March 2019	888,574	977,431	799,717
At 31 March 2020	**602,818**	**663,100**	**542,536**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk that parties in whom the Fund invests may fail to pay amounts that are due to the Pension Fund. For example an entity in which the Pension Fund invests may fail. This risk is minimised by investing in specialist fund managers across different asset classes and geographical regions. Additionally there is a risk that an admitted body will be unable to meet its contributions obligations. Contribution receipts are monitored monthly and, if necessary, remedial action is taken.

Credit risk also represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council investments in money market funds with a AAA rating from a leading rating agency and also with other local authorities.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past six financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £82.1m (£5.5m at 31 March 2019). This was held with the following institutions:

Summary	Rating at 31 March 2020	Balances as at 31 March 2020 £'000	Balances at 31 March 2019 £'000
Money Market Funds	AAA		
Goldman Sachs Sterling Liquid Reserves Fund		4,326	3,439
Deutsche Managed Sterling Fund		2,450	-
Insight Liquidity Funds		11	-
JPMorgan Sterling Liquidity Fund		9,727	-
Aberdeen Standard Liquidity Fund		2	-
Other Local Authorities		65,000	-
Current Account			
NatWest Bank		608	2,089
Total		82,124	5,528

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings including cash invested in money market funds. The Fund defines liquid assets as assets that can be converted to cash within three months. Non-liquid assets are those assets which will take longer than three months to convert into cash. All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

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REPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**Pension Fund Annual Report 2020/2021**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. RECOMMENDATIONS

The Committee are asked to consider and note the draft Croydon Council Pension Fund Annual Report 2020/2021

2. EXECUTIVE SUMMARY

2.1 This report asks the Committee to consider and note the draft Croydon Council Pension Fund Annual Report 2020/2021 (Appendix I).

3 DETAIL

3.1 Attached to this report as Appendix I is the draft Croydon Council Pension Fund Annual Report 2020/2021.

3.2 According to the Pension Scheme regulations the audited Pension Fund Accounts and Annual Report are required to be completed and audited in the summer following the end of each financial year. However, in view of the Covid-19 pandemic the regulations in respect of the completion for 2020/2021 were relaxed with the deadline for the preparation of the financial statements extended up to 31 August 2021 and the date for the audit to be completed to 30 November 2021. Due to further issues arising from the pandemic and matters pertaining to the Council's Accounts the audit has not yet begun. It is nevertheless considered appropriate to present the unaudited draft Report to the Committee as early as possible.

3.3 When the Audit is finalised the Annual Report will be considered alongside it by the General Purposes and Audit Committee as constituting those charged with governance under the regulatory framework.

3.4 If any significant changes to the Report or Statement of Accounts are required the Committee will be so advised.

4 CONSULTATION

4.1 Relevant Officers of the Council have been consulted.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no direct financial or direct risk implications

Approved by: Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that the Pension Fund is subject to a statutory requirement to provide a defined benefit pension to scheme members. The Pensions Committee is responsible for agreeing and monitoring the investment strategy and formally reviewing the Fund's governance and administration of the Fund.

6.2 Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires each administering authority to prepare an annual report for the Pension Fund. The regulations prescribe that the following should be included in the annual report:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;
- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures;
- the extent to which the fund has achieved its required performance levels set out in its pension administration strategy; and
- the current version of the funding strategy statement, investment strategy statement and communications policy and any other information the authority considers appropriate.

6.3 This paper serves that purpose and forms part of the strategy and governance reviewing process.

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

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Dean Shoesmith, Interim Chief People Officer

8. OTHER CONSIDERATIONS

8.1 There are no Equalities, Environmental, Crime and Disorder Reduction considerations arising from this report

9 DATA PROTECTION IMPLICATIONS

9.1 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: Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

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

BACKGROUND DOCUMENTS:
None

APPENDIX I – Draft Croydon Council Pension Fund Annual Report 2020/2021
APPENDIX II - Draft Croydon Pension Fund Accounts 2020/2021

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CROYDON PENSION FUND
Annual Report 2020/21

31 March 2021

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Foreword by Chair of Pension Committee

As the new, albeit returning, Chair of the Pension Committee I am delighted to be able to present to you this Annual Report of the Croydon Pension Fund.

I would like to start by thanking my predecessor, Councillor Humayun Kabir, for his hard work and diligence in chairing the Committee for the last year. It almost goes without saying that the challenges of the year have probably exceeded those of any other in the history of the Fund.

The Fund has around 100 employers, 30,000 members and assets of £1.54bn. Over the last five years it has grown on average by around 15% per year with its assets now worth £667m more than they were in March 2016.

Notwithstanding the tumultuous events surrounding the Covid-19 pandemic, in investment terms the year has been most successful. In the first three months the losses incurred at the end of the previous year were recovered and the Fund has since gone from strength to strength with almost every investment showing significant gains. The lengthy rally in global equity markets, temporarily interrupted by the pandemic, continued and by year-end the target allocation was slightly exceeded, offset by balances below target in our infrastructure and private rental sector investments.

In April 2020 the Fund invested £55m in the LCIV Sustainable Equity Exclusion Fund as managed by RBC Global Asset Management (UK) Ltd. The Fund has strong Environmental, Social and Governance credentials and offers investors the opportunity to exclude investments in sectors such as fossil fuels, tobacco and weapons.

We remain committed to the “pooling” concept and were pleased to be able to invest the funds released by the liquidation of the Janus Henderson fund into the RBC Fund. The percentage of our assets invested within the scope of the London CIV has now risen to 52%, the highest it has ever been. We shall continue to be an active member of the CIV and look at all opportunities they make available. However, we shall only invest when we are satisfied that managers and asset classes offered are likely to assist in the achievement of our policies and are conscious that the illiquid nature of many of our investments makes transfers difficult..

Our funding strategy remains in accordance with the results of the 2019 Actuarial Valuation which advised us that our funding level had increased over the previous three years from 73% to 88%. By making substantial “deficit recovery” payments and seeking good investment performance the Fund is moving towards achieving its objective of a 100% funding level within 20 years.

During 2019/20 a currency hedge was put in place for the Legal and General Equity Fund. Our officers monitor its effect closely and as at 31 March 2021 the hedged portion of the mandate was significantly outperforming the unhedged portion.

Notwithstanding the effects of the pandemic, careful monitoring and reviews of developments, diversification across assets, regions and investment styles, and sound governance arrangements have all contributed to a steadily improving outlook for the Fund. In addition to discharging their fiduciary responsibility to stakeholders the Committee are committed to ensuring that sound Environmental, Social and Governance practices are embedded in the investment strategy, specifically in respect of tobacco and a desire to move towards carbon neutrality. I am pleased with our investment in the RBC Fund and to see that this Report includes a substantial section on our responsible investment strategy.

As usual, at our meetings, the Committee have been busy addressing a number of very important investment, service and valuation issues. At each of our meetings we have considered investment performance and have taken a particular interest in the infrastructure mandates and the implications of Environmental Social and Governance policies. We have appreciated both the verbal and written advice provided by consultants from WM Mercer. To help to develop the relationship between the Fund and its investment managers several meetings have been were held between Members, officers and managers.

Also, at each Committee meeting we have reviewed the services provided to the Fund members including those offered to them by the self-service facility. The Committee have a particular wish to ensure that the best possible service is provided to members of the Fund, when they or their dependants need advice and support in connection with retirement and death benefits. In this regard, we are pleased with the performance which you will see detailed in the Report. We are also very conscious of allocating sufficient staffing resources to provide the service

At our December meeting the Committee received a report detailing progress against the agreed action plan arising from the Aon Hewitt Governance Review and its implications for the Committee's Business Plan. The Committee were particularly anxious to see that progress be made as soon as possible, particularly as regards the CIV governance structure, key performance indicators and data improvement.

The Committee also ensures that the Fund operates in accordance with the Local Government Pensions Scheme Regulations and relevant Guidance and adopts sound policies and procedures for the administration of the Fund.

I would like to acknowledge the very helpful contribution in assisting the Committee made by the Pension Board and, particularly, by its Chair, Mike Ellsmore. Mr Ellsmore regularly attends our Committee and I know that he is always made welcome and invited to speak on matters of mutual interest. I hope to carry on this tradition.

I will conclude by also offering my thanks to the many professional officers and advisers listed within the pages of this Report who have contributed to ensuring the continued success of our Fund. Croydon is most fortunate to have such professional and experienced officers in its Pensions team.

I hope you find our Report an interesting read.

Andrew Pelling, Chair, London Borough of Croydon Pension Committee

A OVERALL FUND MANAGEMENT

1 Scheme Management and Advisers

Introduction

Under the Local Government Pension Scheme Regulations 2013 (“the Regulations”) the London Borough of Croydon (“the Council”) is specified as an Administering Authority for the Local Government Pension Scheme (“the Scheme”). As such, the Council is required to maintain a pension fund (“the Fund”). The Council acts as Scheme manager with responsibility for managing the Fund’s assets, collecting employer and employee contributions, paying pension benefits as they fall due and various other aspects of administration.

Under the Regulations the Council must prepare a “fund annual report” which contains a number of specified features. This Report has been prepared in accordance with the CIPFA publication “preparing the annual report – Guidance for Local Government Pension Scheme Funds 2019 Edition” which has been adopted by the Ministry for Housing, Communities and Local Government as statutory guidance for the purposes of the Regulations.

Pension Committee

The Council discharges its duties through the Pension Committee (“the Committee”). The role of the Committee is

- To ensure that the Fund is properly operated in accordance with the Regulations, all other relevant legislation and best practice as advised by The Pensions Regulator, including financial, governance and administrative matters;

- 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; and

- 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 arrangements, scheme administration, and external advisers;
    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 Administrating 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.

The Committee comprises eight voting Members of the Council, one voting Pensioner Representative and two non-voting members being a Pensioner Representative and a Trade Union Representative.

The members of the Committee for the 2020/21 Municipal Year were:

<u>Councillors:</u>	
Chair:	Humayun Kabir
Vice-Chair:	Simon Hall (replaced during year by Andrew Pelling)
	Simon Brew
	Robert Canning
	Luke Clancy (replaced during year by Jan Buttinger)
	Clive Fraser
	Patricia Hay-Justice
	Yvette Hopley
Substitutes	Pat Clouder, Nina Degrads,, Steve Hollands, Karen Jewitt, Vidhi Mohan (replaced during year by Luke Clancy), Caragh Skipper, Robert Ward, Callton Young (resigned during year but not replaced)
<u>Other members:</u>	
Pensioners' Representatives:	Gilli Driver (Voting)
	Peter Howard (Non-voting)
Trade Union Representative:	Charles Quaye (Non-voting)

The Committee is supported by officers and independent external advisers.

Pension Board

As Administering Authority, the Council is required to establish a Local Pension Board to assist them with securing compliance with the Regulations and other legislation relating to the governance and administration of the Scheme and requirements imposed in relation to the Scheme by The Pensions Regulator.

During 2020/21 the members of the Board were:

Independent Chair:	Michael Ellsmore
Employer Representatives:	Richard Elliott
	Cllr Andrew Pelling (resigned during year but not replaced)
	Daniel Pyke
Member Representatives:	Teresa Fritz
	Ava Payne
	Daniel Whickman

Board members, (excluding the Chair), have individual voting rights but it is expected they will, as far as possible, reach a consensus on the matters considered.

The Board is supported by officers and independent external advisers.

Administering Authority
London Borough of Croydon
Treasury and Pensions Management, Resources Department
5A Bernard Weatherill House
8 Mint Walk
Croydon CR0 1EA

Interim Director of Finance, Investment and Risk, S151 Officer

Nigel Cook - Head of Pensions and Treasury
Nigel.Cook@Croydon.gov.uk
Matthew Hallett - Pension Fund Investment Manager
Matthew.Hallett@Croydon.gov.uk

Asset Pool Operator
London CIV
Fourth Floor
22 Lavington Street
London SE1 0NZ

Investment Adviser
Mercer Ltd
1 Tower Place West
Tower Place
London EC3R 5BU
Peter Gent - Senior Investment Consultant

Governance Adviser
Aon Hewitt Ltd
The Aon Centre
The Leadenhall Building
122 Leadenhall Street
London EC3V 4 AN
Karen McWilliam - Partner & Head of Public Sector Benefits & Governance Consultancy

Actuary
Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB
Richard Warden - Partner and Actuary

Custodian of Assets

Bank of New York Mellon
160 Queen Victoria Street
London EC4V 4LA

Auditor - external

Grant Thornton UK LLP
110 Bishopsgate
London EC2N 4AY
Sarah Ironmonger - Director

Auditor - internal

Mazars
Tower Bridge House
St Katherine's Way
London E1W 1DD

Bankers

NatWest Bank
250 Bishopsgate
London EC2M 4AA

Legal Advisers

The Fund opts to procure legal advice on a case by case basis from the Croydon Council Legal Framework

National LGPS Framework

The Fund is a founder member of the National LGPS Framework

AVC Provider

Prudential
Laurence Pountney Hill
London EC4R 0HH

2 Fund Managers

FUND MANAGER	INVESTMENT MANDATE
Legal and General 1 Coleman Street London EC2R 5AA	Developed World (Ex-tobacco)l Equities (Pooled)
London CIV - RBC Fourth Floor 2 Lavington Street London SE1 0NZ	Sustainable Equity Exclusion (Pooled)
London CIV Fourth Floor 2 Lavington Street London SE1 0NZ	Global Equities (Segregated)
Aberdeen Standard 30 St Mary Axe London EC3A 8BF	UK Corporate Bonds and Absolute Return Bonds (Pooled)
London CIV - PIMCO Fourth Floor 2 Lavington Street London SE1 0NZ	Global Bonds (Pooled)
Wellington 80 Victoria Street London SW1E 5JL	Sterling Bonds (Pooled)
Pantheon 10 Finsbury Square London EC2A 1AD	Private Equity Invest in unquoted companies (Pooled fund of funds) (US Dollar & Euro)
Knightsbridge 122 SW Frank Phillips Boulevard Bartlesville OK 74003 USA	Private Equity – Venture Capital (Pooled fund of funds) (US Dollar)
Access Capital Central Court 25 Southampton Buildings London WC2A 1AL	Private Equity - Co-Investment small European buyout (Euro)

North Sea Capital Ny Vesterdade 13.3 1471 Copenhagen K	Private Equity Invest in unquoted companies (Pooled fund of funds) (Euro)
Equitix Welken House 10-11 Charterhouse Square London EC1M 6EH	Infrastructure – PFI Projects (Pooled)
Temporis Capital Berger House 36-38 Berkeley Square Mayfair London W1J 5AE	Infrastructure – Onshore wind farms
Green Investment Bank Macquarie Infrastructure and Real Assets (MIRA) 28 Ropemaker Street London EC2Y 9HD	Infrastructure – Offshore wind farms
Access Capital Central Court 25 Southampton Buildings London WC2A 1AL	Infrastructure – European projects
I-Squared Capital 600 Brickell Penthouse Miami Florida 33131 USA	Infrastructure- Global projects
M & G 10 Fenchurch Avenue London EC3M 5AG	Private Rental Sector UK
Schroders 1 London Wall Place London EC2Y 5AU	UK Property Funds

3 Risk Management

On 17 March 2020 the Fund confirmed the adoption of a Risk Management Policy which details its risk management strategy including:

- the risk philosophy for the management of the Fund and, in particular, attitudes to and appetite for, risk;
- how risk management is implemented;
- risk management responsibilities;
- the procedures that are adopted in the Fund's risk management process;
- the key internal controls operated by the Fund and other parties responsible for the management of the Fund

The Policy (Appendix B) can be accessed via the Pension Fund website.: https://www.croydonpensionscheme.org/resources/

Following best practice, the Committee maintain a risk register which is reviewed by themselves and the Pension Board several times each year. Officers, the Committee and the Board attempt to identify all relevant risk scenarios together with an assessment of their potential likelihood and impact.

Risks have been identified in four categories – Governance, Funding, Investment and Operational – and mitigation work has concentrated on the relatively few but most important risks. For each risk, existing controls are identified and actions designed to mitigate them are considered. The Risk Register is considered by the Pension Committee and / or Pension Board several times each year.

Both the Investment Strategy Statement and the Funding Strategy Statement identify risks specific to the subject matters covered.

Additionally, the Fund Account and Net Assets Statement (Appendix A) includes a substantial section detailing the nature and extent of some specific risks. It covers price, currency and interest rate risks associated with financial instruments and provides sensitivity analyses showing the potential impact of these risks. It particularly details the valuation risks associated with unquoted private equity and infrastructure investments together with liquidity, re-financing and credit risk.

The Fund is also exposed to third party risk due largely to the outsourcing of its fund manager functions. It seeks assurance as to the efficacy of controls in operation by reviewing each manager's ISAE 3402 or equivalent report. The report is prepared by the manager's auditor who is expected to provide an opinion on the following lines:

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described on pages …. to ….. In our opinion, in all material respects:
(a) The description fairly presents the investment management services conducted on behalf of institutional clients invested in direct portfolios or pooled funds that were designed and implemented throughout the period from ………. to ……….;
(b) The controls related to the control objectives stated in the description were suitably designed throughout the period from ………. to ……….; and

(c) The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from ………. to ………..

The status for each of the managers is as follows:

FUND MANAGER	TYPE OF REPORT	ASSURANCE OBTAINED	REPORTING ACCOUNTANT
Legal and General	ISAE 3402 and AAF 01/06	Obtained	KPMG LLP
London CIV - RBC	Third Party Controls Oversight Summary Report	Obtained	PWC
Aberdeen Standard	ISAE 3402 and AAF 01/06	Obtained	KPMG LLP
London CIV - PIMCO	Third Party Controls Oversight Summary Report	Obtained	PWC
Wellington	Management Assertion Statement (American Institute of Certified Public Accountants)	Obtained	PWC
Pantheon	SSAE18 and ISAE 3402	Obtained	KPMG LLP
Knightsbridge	Annual financial statement audit of each fund includes consideration of internal controls	n/a	KPMG LLP
Access Capital	Funds' administrator, APEX Group Ltd. has ISAE 3402.	n/a	n/a
North Sea Capital	ISAE 3402 (Saltgate Group)	Obtained	Deloitte LLP
Equitix	Relies on Annual Audit, FCA and AIFMD requirements and independent custodian	n/a	n/a
Temporis Capital	Compliance and Procedures Manual	Obtained	n/a
Green Investment Bank	Internal Controls - Policies and Procedures	Obtained	n/a
I-Squared Capital	Management Assertion Statement (American Institute of Certified Public Accountants) SOC1 Type2 Report for The Citco Group	Obtained	Ernst and Young LLP
M & G	ISAE 3402 and AAF 01/06	Obtained	Ernst and Young LLP
Schroders	ISAE 3402 and AAF 01/06	Obtained	Ernst and Young LLP

During the year the Mazars, the Fund's Internal Auditors carried out rolling quarterly audits covering contributions, transfer values, refunds, benefits, fund implications of deaths and performance monitoring. The results have been almost entirely positive.

B. FINANCIAL PERFORMANCE

FUND ACCOUNT	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Dealing with members and employers				
Contributions - members	12,038	12,746	13,965	14,743
Contributions - employers	32,140	35,062	38,243	54,313
Transfers in	7,880	11,584	14,179	8,001
Pensions	-42,381	-43,431	-46,540	-47,839
Lump sums	-7,908	-8,923	-10,310	-9,373
Transfers out	-4,922	-5,794	-10,769	-7,031
Net additions/withdrawals (-)	**-3,153**	**1,244**	**-1,232**	**12,814**
Management expenses				
Administration	-1,417	-1,083	-1,676	-1,368
Oversight and governance	-669	-674	-1,041	-818
Investment management	-4,759	-6,410	-8,708	-12,375
Total management expenses	**-6,845**	**-8,167**	**-11,425**	**-14,561**
Return on investments				
Income	12,661	5,468	9,425	7,310
Change in market value	32,725	120,171	1,912	275,295
Total return on investments	**45,386**	**125,639**	**11,337**	**282,605**
NET INCREASE IN FUND	**35,388**	**118,716**	**-1,320**	**280,858**

In three of the last four years the Fund asset value has increased substantially, in 2020/21 by £281m to £1,538m overall.

Officers and the Pension Committee monitor investment performance continuously and seek advice from the Fund's independent Investment Adviser as necessary.

UNIT COSTS	2017/18	2018/19	2019/20	2020/21
Administration, oversight and governance costs				
Administration costs (£'000)	1,417	1,083	1,676	1,368
Administration costs per member (£)	53.22	37.80	57.26	45.45
Oversight and governance costs (£'000)	669	674	1,041	818
Oversight and governance costs per member (£)	25.13	23.52	35.56	27.18
Total administration, oversight and governance costs per member	**78.35**	**61.32**	**92.82**	**72.63**
Investment management costs (£'000)	4,759	6,410	8,708	12,375
Investment management costs as percentage of investment assets	0.42	0.51	0.73	0.82

At the end of the year the staffing position was as follows:

	Full time equivalents	Vacancies
Investment and Treasury	6	2
Governance and Compliance	3	1
Administration	15	2
Technical Support	2	-

C. INVESTMENT POLICY AND PERFORMANCE

1 Introduction

As Administering Authority, the Council discharges its duties through the Pension Committee. The strategic management of the assets is one of the responsibilities of the Committee which it carries out in consultation with the Fund's Investment Adviser. Day-to-day management of the investments is the responsibility of fund managers, who have been appointed by the Committee, acting under agreed mandates, and Council officers acting under delegated powers.

The Committee has adopted an Investment Strategy Statement in accordance with relevant Regulations and Guidance. The full Statement (Appendix C) can be accessed via: https://www.croydonpensionscheme.org/media/4443/iss-september-2018.pdf

The Fund's goal is to ensure there are sufficient assets to meet all liabilities as they fall due. In order to achieve this goal the Committee has adopted the following objectives:

- Achieve a return on investments which at least meets the assumed return (the discount rate) used by the Actuary when setting the triennial valuation;
- Keep risk within acceptable levels; and
- Maintain liquidity requirements to pay liabilities when they fall due.

The Statement includes details of the Fund's approach to:

- Asset allocation;
- Risk management;
- Pooling of assets;
- Environmental, social and governance issues; and
- Voting.

As set out in the Regulations, the Committee reviews the Investment Strategy Statement from time to time and at least every three years. In the event of any material change to any matter contained within the Statement, this will be reflected within six months of it occurring.

2 Asset Allocation

The strategic asset allocation target used throught the year came into force in March 2020 as follows.

ASSET CLASS	TARGET %	OPERATIONAL RANGE %
Equities	40	35-45
Fixed interest	20	17-23
Private equity	10	
Infrastructure	14	
Property	10	7-13
Private rental sector property	6	
TOTAL	**100**	

The Fund's main currency exposures are to the US Dollar and the Euro. In view of Sterling's long term weakness against these currencies, exacerbated by Brexit uncertainties, the opportunity was taken to "lock-in" some of the gains made by the Fund and to provide some cover against future risks. On 1 August 2019 a 50% currency hedge was applied to the Legal and General Developed World (ex-tobacco) Equities fund. The decision to hedge half of the L&G mandate has continued to benefit the Fund and for the year to 31 March 2021 the hedged portion of the mandate returned 50.4%, whilst the unhedged portion returned 39.5%.

The distribution of the Fund's investment assets among fund managers at 31 March 2020 and 31 March 2021 is detailed below.

Fund Manager	Investment Mandate	% of Investment Assets at 31 March 2020	% of Investment Assets at 31 March 2021
Legal and General	Developed World (Ex-tobacco) Equities (pooled)	36.0	40.8
London CIV - RBC (UK)	Sustainable Equity Exclusion		5.1
London CIV	Global Equities (Segregated)		
Aberdeen Standard	UK Corporate Bonds and Absolute Return Bonds (Pooled)	11.2	9.3
London CIV - PIMCO	Global Bonds (Pooled)	7.1	6.1
Wellington	Sterling Bonds (Pooled)	6.1	4.7
Pantheon	Private Equity Invest in unquoted companies (Pooled fund of funds) (US Dollar & Euro)	5.1	4.3
Knightsbridge	Private Equity – Venture Capital (Pooled fund of funds) (US Dollar)	3	3.5
Access Capital	Private Equity - Co-Investment small European buyout (Euro)	1.1	1.6
North Sea Capital	Private Equity Invest in unquoted companies (Pooled fund of funds) (Euro)	0.4	0.6
Equitix	Infrastructure – PFI Projects (Pooled)	6.6	4.8
Temporis Capital	Infrastructure – Onshore wind farms	2.5	1.9
Green Investment Bank	Infrastructure – Offshore wind farms	1.9	1.4
Access Capital	Infrastructure – European projects	1.6	1.9

I-Squared Capital	Infrastructure	1.6	1.3
M & G	Private Rental Sector UK	5.2	4.1
Schroders	UK Property Funds	9.7	7.9
Cash		0.9	0.7
TOTAL		**100.0**	**100.0**

3 Monitoring the Fund Managers

Performance of the fund managers is reviewed formally at the quarterly Committee meetings. To assist the Committee, reports on managers' performance are provided by the Council's officers and the Investment Adviser. Additionally, the Council's officers and the Adviser meet the managers regularly to review their actions together with the reasons for their investment performance.

4 Custody

The Fund employs The Bank of New York Mellon as an independent custodian for use as required. However, as the proportion of its assets managed on a pooled basis through the London CIV increases the role of the custodian will be reviewed.

5 Performance

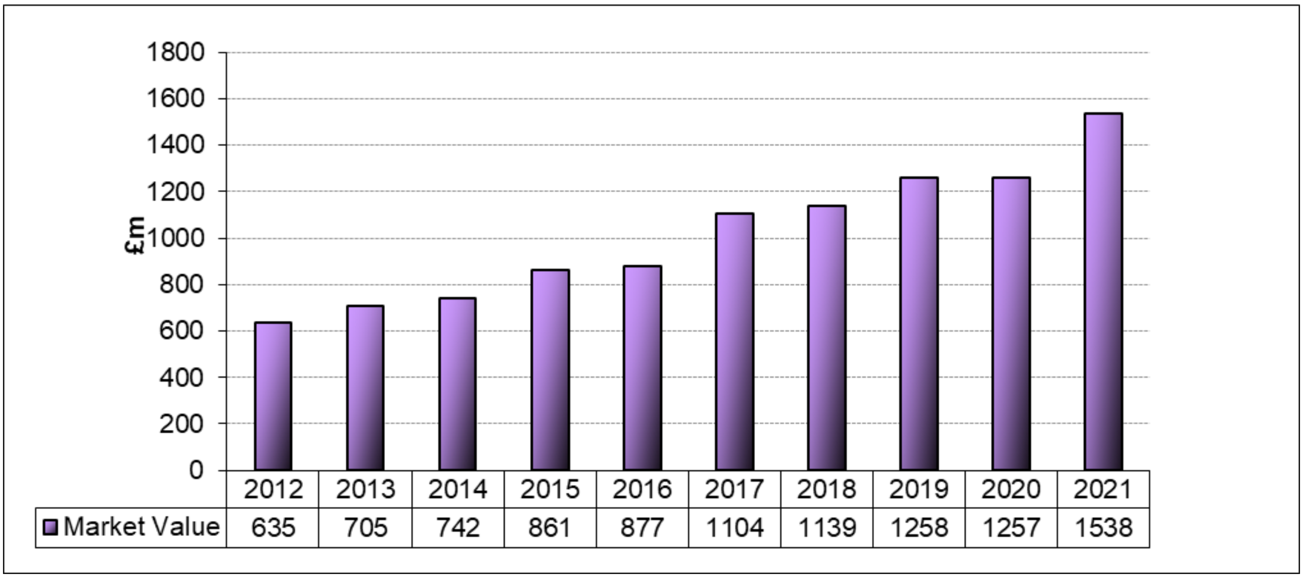
The Fund's performance is measured against its own customised benchmark of CPI plus 4%. During the 2020/2021 financial year it returned 19.9%, outperforming its benchmark by 15.4%. This outstanding performance was due primarily to the return of 45% on the global equities fund and very high returns from most of the private equity mandates. This has also led to significant outperformance over the 3 years' and 5 years' periods. This is extremely positive as it shows the Fund can continue to perform over the long term and to withstand a major shock caused by an unpredictable and potentially catrostophic event.

The annualised investment returns of the Fund for 1, 3 and 5 years are as follows:

	FUND (% PER YEAR)	BENCHMARK (% PER YEAR)
1 Year	19.9	4.5
3 Years	9.8	5.3
5 Years	10.8	5.8

6 Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2021 were £1,538m compared with £635m at 31 March 2012. The chart below shows the growth of the assets over the past ten years.



NET ASSETS AT 31 MARCH 2021	£m	%
Market value of investments	1,501.6	97.7
Other balances held by fund managers	0.7	0.0
Cash held by fund managers	10.6	0.7
Net current assets	24.8	1.6
TOTAL	**1537.7**	**100.0**

7 Distribution of Assets by Market Value

INVESTMENTS AT 31 MARCH 2021	£m	%
Global equities	693.93	46.2
Private equity	151.78	10.1
Bonds	303.74	20.3
Private rental sector	62.11	4.2
Property	119.14	7.9
Infrastructure	170.92	11.3
TOTAL	**1501.62**	**100.0**

8 Top 10 Global Holdings

	Approximate market value £m	% of total fund
Apple Inc	26.05	1.69
Microsoft Corporation	19.75	1.28
Amazon.com Inc	14.81	0.96
Alphabet A	10.58	0.69
Facebook	8.02	0.52
Alphabet C	6.79	0.44
Tesla Inc	5.55	0.36
Johnson and Johnson	4.94	0.32
JP Morgan Chase & Co	4.94	0.32
Visa Inc A	3.70	0.24

9 Environmental, Social and Governance Issues

Paragraph 6 of the Investment Strategy Statement describes the Fund's Environmental, Social and Governance Strategy as follows:

6.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pension Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

6.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

6.3 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. The Fund will disinvest from existing fossil fuel investments in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.

6.4 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long term performance of the Fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

6.6 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.7 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

6.8 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

At their meeting in May 2019 The committee considered a report from the Investment Adviser on the environmental impact of the Fund and the challenges inherent in seeking to move to a “carbon neutral” approach by the Fund. They further agreed to

- Undertake a fact-finding and information session on climate change and investment
- Undertake a fuller carbon footprint exercise
- Update the policy on climate change, incorporating targets and metrics
- Consult with Fund members and other scheme employers on the next steps around moving towards carbon neutrality in the Fund
- Implement the adopted policy

In November 2019 the Committee received a training presentation entitled “Investing in a Time of Climate Change Crisis.”

10 Voting

Paragraph 7 of the Investment Strategy Statement describes the Fund's Voting Strategy as follows:

7.1 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

7.2 The Fund has delegated responsibility for voting rights to the Fund's external investment manager, currently LGIM, and expects them to vote in accordance with the Fund's voting policy.

7.3 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website.

7.4 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.

7.5 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broad

7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

7.8 In addition the Fund:

- *Is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;*
- *is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;*
- *Joins wider lobbying activities where appropriate opportunities arise.*

D. SCHEME ADMINISTRATION

The Fund's Administration Team carry out a wide range of functions in support of the members.

Performance in 2020/2021 against some of the most important of the metrics was as follows:

LEGAL DEADLINES			
PROCESS	**LEGAL REQUIREMENT**	**TOTAL NUMBER COMPLETED**	**% ACHIEVED WITHIN LEGAL DEADLINE**
Notify the amount of retirement benefits	One month from the date of retirement if on or after normal pension age or two months from the date of retirement if after normal pension age	397	100
Provide a retirement quotation on request	As soon as practicable but no more than two months from the date of request unless there has already been a request in the last 12 months.	779	99
Calculate and notify dependent(s) of amount of death benefits	As soon as possible but, in any event, no more than two months from the date of becoming aware of death or from date of request from a third party (eg personal representative).	351	99
Send a notification of joining the LGPS to a Scheme member	Two months from the date of joining the Scheme or earlier if within one month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	1,430	77
Inform a member who has left the Scheme of their calculated benefits – backlog cases	As soon as practicable and no more than two months from the date of notification (from employer or Scheme member)	499	32
Inform a member who has left the Scheme of their calculated benefits – new cases	As soon as practicable and no more than two months from the date of notification (from employer or Scheme member)	587	78
Obtain transfer details for transfer in, calculate and provide quotation to member	Two months from date of request	68	94
Provide all active and deferred members with Annual Benefit Statements each year	By 31 August	16,690	100

TEAM PERFORMANCE TARGETS				
PROCESS	TEAM TARGET	TOTAL NUMBER COMPLETED	% ACHIEVED AGAINST TARGET	AVERAGE DAYS TO PROCESS
Notify the amount of retirement benefits	20 working days from date of retirement	397	100	3
Provide a retirement quotation on request	15 working days from date of request	779	97	8
Calculate and notify dependent(s) of amount of death benefits	20 working days from receipt of all information	351	95	8
Send a notification of joining the LGPS to a Scheme member	30 days from date of notification of joining member	1,430	72	26
Inform a member who has left the Scheme of their calculated benefits – backlog cases	40 working days from date of notification (from employer or Scheme member)	499	24	561
Inform a member who has left the Scheme of their calculated benefits – new cases	40 working days from date of notification (from employer or Scheme member)	587	66	41
Obtain transfer details for transfer in, calculate and provide quotation to member	40 working days from date of request	68	84	16
Provide all active and deferred members with Annual Benefits Statements each year	By 31 August	16,690	100	

E. ACTUARIAL REPORT

1 Valuation

In accordance with the Regulations the Fund commissions a revaluation of its assets and liabilities every three years. The most recent valuation was produced by the Actuary during 2019/20 reflecting the position as at 31 March 2019 with the following results:

ACTUARIAL VALUATION	31 March 2007	31 March 2010	31 March 2013	31 March 2016	31 March 2019
Assets (£m)	545	583	705	877	1,258
Liabilities (£m)	806	884	1,064	1,203	1,423
Deficit (£m)	261	301	359	326	165
Funding Level (%)	68	66	66	73	88

The key financial assumptions underpinning the valuation were:

FINANCIAL ASSUMPTIONS	31 March 2019 %
Discount rate	4.0
Pay increases	2.3
Pension increases	2.3
Revaluation of accrued CARE pension	2.3

Demographic assumptions are more complex and can be seen in the Actuarial Report. The Fund's target to achieve full funding is 20 years and employers' contribution rates are set to give a high likelihood of achieving this.

At the valuation, contribution rates were set for the Council and for approximately 100 Admitted and Scheduled bodies. The percentage of pensionable pay set for the Council for 2019/20 was 16.1% whilst for all other bodies it ranged from zero to over 30%.

A copy of the Actuarial Valuation Report (Appendix D) can be accessed via:
https://www.croydonpensionscheme.org/media/5339/london-borough-of-croydon-pension-fund-2019-final-valuation-report-at-31-march-2019.pdf

2 Membership of the Fund

During 2020/21 employers made payments into the Fund as follows:

EMPLOYERS IN FUND	Employers' Contributions £'000	Employers' Contributions £'000	Total Contributions £'000
London Borough of Croydon	**10,385**	**40,952**	**51,337**
(Community) Admitted Bodies			
Croydon Voluntary Action	30	70	100
Admitted Bodies			
Arthur McKay Ltd	3	11	14
AXIS Europe plc (Housing Repairs)	13	46	59
Brick by Brick Croydon Ltd	21	63	84
Churchill Croydon	4		4
Churchill Services Ltd	0	-	-
Conway Construction Ltd	7	93	100
Croydon Equipment Services Ltd	183	724	907
Greenwich Leisure Ltd	27	18	45
Idverde 622	62	169	231
Impact Group Ltd	1	-	1
Keyring Living Support Networks	2	7	9
Nationwide Cleaning	3	15	18
Octavo	-	0	-
Olive Dining Ltd	1	6	7
London Hire (now joined Olympic South)	5	31	36
Roman Catholic Archdiocese of Southwark	2	5	7
Skanska Construction UK Ltd	4	-	4
Sodexo Ltd	2	5	7
The BRIT School	133	215	348
Veolia (ex Cleanaway) 536	10	39	49
Veolia SLWP1 608	21	54	75
Veolia SLWP2 (ex Sutton and Merton) 625	256	711	967
Vinci Facilities Ltd	2	9	11
Wallington Cars and Couriers Ltd	1	5	6
Westgate Cleaning Services Ltd	0	1	1
XMA	2	12	14
Total Contributions from Admitted Bodies	**795**	**2,309**	**3,104**
Scheduled Bodies			
Aerodrome Primary Academy	41	128	169
Applegarth STEP	27	80	107
Ark Blake Academy	4	16	20
Ark Oval Primary Academy	43	107	150
Atwood Primary Academy	33	122	155
Broadmead Primary Academy	27	128	155
Castle Hill Academy	30	88	118
Chestnut Park Primary School	31	90	121
Chipstead Valley Primary School	66	224	290
Coombe Wood School - Part of Folio Trust	141	433	574
Courtwood Primary School - Part of Collegiate Trust	28	77	105

Crescent Primary Academy	37	105	142
Croydon College	303	1,197	1,500
David Livingstone Academy - STEP Academy Trust	10	23	33
Davidson Primary Academy	11	89	100
Fairchildes Primary School	63	141	204
Forest Academy	22	59	81
Gilbert Scott Primary School - Part of Collegiate Trust	22	98	120
Gonville Academy - STEP Academy Trust	25	92	117
Good Shepherd Catholic Primary and Nursery School	18	73	91
Harris Academy Purley	57	166	223
Harris Academy South Norwood	93	213	306
Harris City Academy Crystal Palace	460	812	1,272
Harris Invictus Academy	39	81	120
Harris Primary Academy Benson	19	64	83
Harris Primary Academy Haling Park	20	53	73
Harris Primary Academy Kenley	24	72	96
Kingsley Primary Academy	45	204	249
Harris Purley Way	15	35	50
Heathfield Academy - STEP Academy Trust	16	44	60
Keston Primary School - PACE Academy Trust	29	119	148
Krishna Avanti Primary School	5	13	18
Manor Trust	54	209	263
Meridian High School	39	112	151
Monks Orchard Primary & Nursery School	26	94	120
New Valley Primary School - PACE Academy Trust	12	48	60
Norbury Manor Business and Enterprise College for Girls - The Manor Trust	53	162	215
Oasis Academy Arena	32	82	114
Oasis Academy Byron	16	51	67
Oasis Academy Coulsdon	67	218	285
Oasis Academy Ryelands	27	104	131
Oasis Academy Shirley Park	109	324	433
Orchard Park High School	33	165	198
Paxton Academy	8	24	32
Pegasus Academy Trust	142	337	479
Riddlesdown Collegiate	132	381	513
Rowdown Primary School	24	85	109
Shirley High School Performing Arts College	50	149	199
South Norwood Primary School - The Pioneer Academy	27	101	128
St Aidan's Catholic Primary School	16	64	80
St Chad's Catholic Primary School	34	148	182
St Cyprian's Greek Orthodox Primary Academy	31	101	132
St James the Great RC Primary and Nursery	40	165	205
St Joseph's College	49	206	255
St Mark's C of E Primary Academy	15	51	66
St Mary's Catholic Infant School	22	91	113
St Mary's Catholic Junior School	20	75	95
St Thomas Becket Catholic Primary	25	83	108
STEP Central (part of Gonville)	140	398	538
The Archbishop Lanfranc Academy - Coloma Trust	40	184	224
The Beckmead Trust	181	584	765
The Quest Academy	38	135	173
The Robert Fitzroy Academy	53	138	191
Tudor Academy - Wolsey Infants	0	- 36	- 36
West Thornton Primary School	54	168	222

Winterbourne Boys Academy	8	46	54
Tudor Academy -Wolsey Juniors	33	98	131
Woodcote High School	67	209	276
Woodside Primary School & Children's Centre	44	222	266
Early Retirement Costs	-	27	27
Total Contributions from Scheduled Bodies	**3,563**	**11,052**	**14,614**
TOTAL CONTRIBUTIONS	**14,743**	**54,313**	**69,056**

The tables below explain the growth in membership of the Fund over the last year.

	As at 31 March 2021	As at 31 March 2020	Variance	% change
Contributing members	10,044	10,064	-20	- 0.2
Deferred pensioners	11,532	10,923	609	5.6
Pensioners	8,523	8,285	238	2.9
TOTAL	**30,099**	**29,272**	**827**	2.8

	Pensioners approximate variances in 2020/21
Ill-health retirements	13
Normal and early retirements	145
Deferred pensions becoming payable	241
New dependants	113
Sub total	**512**
Less deaths	274
TOTAL	**238**

F. GOVERNANCE

1 Governance Compliance Statement

The administering authority of a Local Government Pension Scheme is required to publish a Governance Compliance Statement. The Statement aims to make the administration and stewardship of the scheme more transparent and accountable to stakeholders and provides the following information:

- how the Council, as the Fund's Administering Authority, discharges its responsibilities to maintain and manage the Fund in accordance with regulatory requirements;
- the structure of the decision making process;
- the frequency of Pension Committee meetings; and
- the voting rights of Committee members.

The Fund's Statement (Appendix E) can be accessed via:
https://www.croydonpensionscheme.org/media/6714/compliance-statement-2021.pdf

2 Attendance at Meetings

Attendance at the meetings of the Committee and the Board by the members during 2020/21 was as follows:

Date of Committee Meeting	15 September 2020	8 December 2020	16 March 2021
Councillor Humayun Kabir (Chair)	✓	✓	✓
Councillor Simon Hall (Vice Chair)	□	□	□
Councillor Simon Brew	✓	✓	✓
Councillor Jan Buttinger			✓
Councillor Robert Canning	✓	✓	✓
Councillor Luke Clancy	□	□	□
Councillor Clive Fraser	✓	✓	✓
Councillor Patricia Hay- Justice	✓	✓	✓
Councillor Yvette Hopley	✓	✓	✓
Councillor Andrew Pelling			✓
Gilli Driver (Pensioner Representative)	✓	✓	✓
Peter Howard (Pensioner Representative)	✓	✓	✓
Charles Quaye (Union Representative)	✓	✓	✓

Date of Board Meeting	15 October 2020	14 January 2021	25 March 2021
Michael Ellsmore (Chair)	✓	✓	✓
Richard Elliott	✓	✓	✓
Councillor Andrew Pelling	✓	□	✓
Daniel Pyke	✓	□	✓
Teresa Fritz	✓	✓	✓
Ava Payne	□	□	✓
David Wickman	✓	✓	✓

3 Training

The Fund's Knowledge and Skills Policy was agreed by the Committee at their meeting on 17 March 2020 and, at the same time, the Committee adopted the CIPFA Knowledge and Skills Framework.

During the year members of both the Committee and the Board were invited to assess their training requirements and to provide feedback on training "events" attended.

A wide range of training opportunities were made available to all members of the Committee and the Board including The Pensions Regulator's Trustee Toolkit modules, the LGE Fundamentals Course and various seminars offered by CIPFA and other providers. Training was also specifically targeted as requested by Committee and Board members.

Specific training sessions included:

- Implications of the McCloud judgment;
- Cyber security; and
- Funding, risk and regulatory updates.

G. FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

The Fund’s Fund Account and Net Asset Statement is attached as Appendix A.

H. ASSET POOLS

In 2015 the, then, Department of Housing, Communities and Local Government issued Guidance which set out how the Government expected funds to establish asset pooling arrangements. The objective was to deliver:

- benefits of scale;
- strong governance and decision making;
- reduced costs and excellent value for money; and
- an improved capacity and capability to invest in infrastructure.

By 31 March 2021 the holdings represented by “investments” through the London CIV comprised 52% of total investments, an all-time high.

During the year no formal changes were made to the Fund’s investment strategy and the Committee consider that they continue to show a significant commitment to the pooling concept. In view of the Fund’s substantial holdings in relatively illiquid private equity, infrastructure and property funds it appears likely that, in the short term, any further investments to sub funds of the London CIV will be limited.

By that time, as a founder member, Croydon had already voluntarily joined the London Collective Investment Vehicle (London CIV). The London CIV’s stated objectives are to deliver broader investment opportunities and enhanced cost efficiencies than funds can achieve individually and overall better risk adjusted performance. It is FCA regulated and was the first of the eight asset pools in England and Wales to become established with all the London borough funds as members.

Since its founding in 2014 the London CIV has developed its governance structure with the key component being a Shareholders Committee which must be consulted by the Board on specified matters. The Committee is made up of Council members and officers of shareholders agreed via a methodology specified in the Terms of Reference.

As at 31 March 2020 the Fund had investments of £84.1m (7.1% of its investments) invested in sub-funds managed by the London CIV and a further £426.0m (36.0%) within the pooling umbrella but not managed by the London CIV. In April 2020 the Fund made an investment of £55m in the London CIV Sustainable Equity Exclusion Fund managed by RBC and by 30 September 2020 investments in CIV sub-funds totalled 11.4% of total investments with a further 37.9% within the pooling umbrella.

Details of the movements in the Fund over the year are shown below:

	31/3/20 £'000	31/3/20 %	30/9/20 £'000	30/9/20 %	31/03/21 £'000	31/03/21 %
POOLED INVESTMENTS						
Equities						
LGIM	425,959	36.0	531,921	37.9	617,105	40.80
RBC			67,617	4.8	76,675	5.10
Fixed interest						
PIMCO	84,104	7.1	92,396	6.6	92,084	6.10
SUB-TOTAL	**510,063**	**43.1**	**691,934**	**49.3**	**785,864**	**52.00**
OTHER	**664,016**	**56.0**	**694,204**	**49.5**	**715,757**	**47.30**
CASH	**11,080**	**0.9**	**16,073**	**1.2**	**11,244**	**0.70**
TOTAL	**1,185,159**	**100.0**	**1,402,211**	**100.0**	**1,512,865**	**100.0**

Estimated savings arising from the pool investments during 2020/21 were as follows:

	Assets under management 31/03/21 £'000	Estimated gross fees savings £'000	Management fees £'000	Development funding charge £'000	Estimated net fees savings £'000
LGIM	617,105	321	27		294
PIMCO / RBC	168,759	308	21		287
Development funding charge				110	-110
TOTAL	**785,864**	**629**	**48**	**110**	**471**

I PENSIONS ADMINISTRATION STRATEGY STATEMENT

The Fund's Administration Strategy Statement is attached (Appendix F) and can be accessed via:
https://www.croydonpensionscheme.org/media/2872/administration-strategy-final-july-2017.pdf

J FUNDING STRATEGY STATEMENT

Under the LGPS Regulations the Fund is required to prepare, maintain and publish a Funding Strategy Statement.

It is prepared, usually at the time of the triennial valuation, in collaboration with the Fund's Actuary and in consultation with the Fund's employers and investment advisers. The current Statement was published in March 2020 and sets out the objectives of the funding strategy as:

- 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 (this will also minimise the costs to be borne by Council Tax payers);
- 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.

The Statement (Appendix G) can be accessed via:

Funding Strategy Statement Croydon Pension Fund (croydonpensionscheme.org)

K INVESTMENT STRATEGY STATEMENT

Under Ministry of Housing, Communities and Local Government Guidance the Fund is required to prepare, maintain and publish an Investment Strategy Statement. The Statement must contain:

- the strategy and processes in place for managing investment risk;
- allocations of investments across asset classes;
- approach to pooling and participation in national asset pools;
- risk management arrangements;
- social and environmental policies and corporate governance considerations; and
- the exercise of rights attached to investments.

The current Statement (Appendix C) was published in September 2018 with amendments made to the strategic asset allocation to that detailed in Paragraph C2 in March 2020. It can be accessed via:
https://www.croydonpensionscheme.org/media/4443/iss-september-2018.pdf

L COMMUNICATIONS POLICY

Under Regulations the Fund is required to prepare, maintain and publish a Communications Policy Statement. The Fund's Statement is expected to cover:

- its policy as regards communicating with interested parties including members and other employers within the scheme; and
- the method and frequency of communications used such as newsletters, annual benefit statements and the pensions website.

The current Statement was published in September 2019 (Appendix H) and can be accessed via:
https://www.croydonpensionscheme.org/media/6706/communications-policy-sep-19.pdf

Below is a summary of communications produced by the Fund and the format used.

COMMUNICATION MATERIAL	FORMAT			WHEN PUBLISHED	WHEN REVIEWED
	PAPER	ELECT	INTERNET		
Pension Scheme Guide	✓	✓	✓	Constantly available	Annually
Topping Up Benefits	✓	✓	✓	Constantly available	Annually
Annual Benefit Statements	✓	✓		Annually	Annually
Statutory Notifications	✓	✓		On joining and Annual Benefit Statement	Annually
Members Self Service		✓	✓	On joining	Continually
Pension Updates	✓	✓	✓	As required	After each publication
Annual Pension Fund Report	✓	✓	✓	Annually	Annually
Early Leaver Information	✓	✓	✓	Sent with deferred benefits statement	Annually
Early Leaver Guidance	✓	✓		Constantly available	Annually
Retirement Information	✓	✓	✓	Sent with retirement details	Annually
Retirement Guidance	✓	✓	✓	Constantly available	Annually
Pension Increase - Incorporated in the Pensioners Newsletter	✓	✓	✓	Annually	Annually
Actuarial Valuation Report	✓	✓	✓	Triennially	Triennially
Pension Committee	✓	✓	✓	Quarterly	Quarterly
Pension Board	✓	✓	✓	Quarterly	Quarterly
Communications Policy Statement	✓	✓	✓	Annually	Annually

Governance Compliance Statement	✓	✓	✓	Annually	Annually

M EXTERNAL AUDIT OPINION

N MAIN FEATURES OF LOCAL GOVERNMENT PENSION SCHEME

1 Eligibility for Membership

Membership is generally available to employees of participating employers who have contracts of at least 3 months, are under age 75, and are not eligible for membership of another statutory pension scheme. Employees of designating bodies or admitted bodies can only join if covered by a relevant agreement.

2 Benefits on Death in Service

A lump sum may be payable on death in service. This is three times the member's annual assumed pensionable pay. The Administering Authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's widow, widower, civil partner, cohabiting partner (subject to certain conditions) and dependant children.

3 Benefits on Retirement

For membership from April 2014 onwards, pension benefits are based on career average revalued earnings and the accrual rate is 1/49th. Benefits for earlier membership consist of a pension calculated as 1/60th of final pay for each year of membership accrued from 1 April 2008 to 31 March 2014. The accrual rate is 1/80th of final pay for each year of membership accrued before 1 April 2008 plus a lump sum of three times the pension. Actual membership may be enhanced automatically in cases of ill health retirement. Employers may choose to increase pension. Members can normally exchange some pension to provide a bigger lump sum.

4 Benefits on Death after Retirement

A death grant is payable if less than 10 years pension has been paid and the pensioner is under age 75 at the date of death, in which case the balance of 10 years of pension is paid as a lump sum. Pensions are also generally payable to the pensioner's widow, widower, civil partner, cohabiting partner (subject to certain conditions) and dependant children.

5 Extra Benefits

The scheme offers several ways for members to improve benefits:

- Payment of additional pension contributions (APCs) to buy extra pension; and
- A money purchase additional voluntary contribution (AVC) scheme which operates with the Prudential offering pension and life assurance options.

6 Employee contributions

The bands of contribution rates are as shown below for contributions taken in respect of pensionable pay received from 1 April 2020. The employee pays contributions at the appropriate band rate on all pensionable pay received in respect of that job (or at half that rate if the employee is in the 50/50 scheme).

Band	Actual pensionable pay for an employment	Contribution rate for that employment – main scheme	Contribution rate for that employment – 50/50 scheme
1	Up to £14,600	5.5%	2.75%
2	£14,601 to £22,800	5.8%	2.90%
3	£22,801 to £37,100	6.5%	3.25%
4	£37,101 to £46,900	6.8%	3.40%
5	£46,901 to £65,600	8.5%	4.25%
6	£65,601 to £93,000	9.9%	4.95%
7	£93,001 to £109,500	10.5%	5.25%
8	£109,501 to £164,200	11.4%	5.70%
9	£164,201 or more	12.5%	6.25%

7 Age of retirement

Normal retirement age is now linked to State Pension Age, but:

- pension benefits are payable at any age if awarded due to ill health;
- members may retire with fully accrued benefits from age 55 onwards if their retirement is on grounds of redundancy or business efficiency;
- members who have left employment may request payment of benefits from age 55 onwards. Actuarial reductions may apply where benefits come into payment before the State Pension Age.
- members who remain in employment may also ask to retire flexibly from age 55 onwards if they reduce their hours of work or grade. Employer consent is required and actuarial reductions may apply.
- payment of benefits may be delayed beyond State Pension Age but only up to age 75.

8 Pensions Increases

Pensions payable to members who retire on health grounds and to dependants in receipt of a pension in respect of a deceased member are increased annually by law in line with increases in inflation. Pensions payable to other members who have reached the age of 55 also benefit from this annual inflation proofing. Where a member has an entitlement to a Guaranteed Minimum Pension (which relates to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions through the State Pension.

LGPS pensions are increased in line with the rise in the Consumer Price Index (CPI), in accordance with the Pensions Increase Act 1971. Although pensions are increased in April, they are based on the rise in the CPI over the 12 months to the previous September. The pensions increase calculation for April 2020 was based on the increase in CPI during the 12 months to September 2019 and was set at 1.7%.

9 Pension Fund Fraud / National Fraud Initiative

The Council is required to protect the public funds it administers. It may share information provided to it with other bodies responsible for auditing or administering public funds or where undertaking a public function, in order to prevent and detect fraud.

The Cabinet Office is responsible for carrying out data matching exercises.

Data matching involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified. Where a match is found it may indicate that there is an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out.

The Council participates in the Cabinet Office's National Fraud Initiative: a data matching exercise to assist in the prevention and detection of fraud. It is required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise, as detailed here.

The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under Part 6 of the Local Audit and Accountability Act 2014. It does not require the consent of the individuals concerned under the Data Protection Act 1998.

Data matching by the Cabinet Office is subject to a Code of Practice.

View further information on the Cabinet Office's legal powers and the reasons why it matches particular information. For further information on data matching at this authority contact caft@croydon.gov.uk .

O RESOURCES FOR MEMBERS

1 Croydon Council Pension Website

The Scheme's website can be found at http://www.croydonpensionscheme.org/

2 National Local Government Pension Scheme Website

The website address is www.lgpsmember.org/

It enables all members, potential members and beneficiaries of the Scheme to access Scheme information 24 hours a day, 365 days a year.

The site has a comprehensive range of Scheme information; it is updated regularly to ensure members have access to the latest information.

3 Additional Voluntary Contributions

The Council has appointed Prudential as the Scheme's provider for additional voluntary contributions investment services.
Further information can be obtained by calling their helpline on 0345 600 0343 or by visiting the websiteLocal Government AVCs - Prudential

Any members' additional voluntary contributions (AVCs) are held in various separate investments administered by Prudential Assurance Company Limited. The benefits arising from these contributions are additional to, and do not form part of, the benefits due under the Local Government Pension Scheme. They are not included in the Pension Fund Accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVCs.

4 Further Information

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex BN1 4DW
Telephone Number: 0845 600 0707 (Monday to Friday 09.00-17.00)
Website: www.thepensionsregulator.gov.uk

The role of the Pensions Regulator has been set out by Parliament, and is to:
- Protect the benefits of members of work-based pension schemes;
- Promote the good administration of work-based pension schemes;
- Reduce the risk of situations arising which may lead to claims for compensation from the Pensions Protection Fund.

MoneyHelper
120 Holborn
London EC1N 2TD

Website: www.moneyhelper.org.uk

MoneyHelper is available to assist members of pension schemes with any difficulties that they are unable to resolve with their scheme administrators.

The Pensions Ombudsman
10 South Colonnade
Canary Wharf
London E14 4PU
Telephone Number: 0800 917 4487
Enquiries@pensions-ombudsman.org.uk
Website: www.pensions-ombudsman.org.uk

The Pensions Ombudsman can investigate and determine any complaint or disputes between scheme members and administrators, involving maladministration, or matters of fact or law.

The Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton WV98 1LU
Telephone Number: 0800 731 0193
Website: https://www.gov.uk/find-pension-contact-details

The Pension Tracing Service can help ex-members of pension schemes, who may have lost touch with their previous employers, to trace their pension entitlements.

Queries relating to the Pension Fund investments can be made to:

The Pensions Section
5A, Bernard Weatherill House
8 Mint Walk
Croydon, CR0 1EA

Tel: 0208 760 5768
E-mail: pensions@croydon.gov.uk

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5 Members Self Service

Scheme members can view their pension details by logging on to our internet member self service. This service allows scheme members to check their personal details, including service history and financial information, as well as enabling members to carry out their own benefit calculations. Members can also check their record to make sure their nomination for their death grant is correct.

Members can log in to the service at: https://croydon.pensiondetails.co.uk to register.

Scheme members will be required to register the E-mail address they wish to use by contacting the pensions team..

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Croydon Pension Fund 2020/21

31st March 2021

CROYDON
www.croydon.gov.uk

FUND ACCOUNT

Dealings with members, employers and others directly involved in the fund	Notes	2020/21 £'000	2019/20 £'000
Contributions	8	69,056	52,208
Individual Transfers in from Other Pension Funds		8,002	14,179
		77,058	**66,387**
Benefits			
Pensions	9	(47,837)	(46,540)
Commutation, Lump Sum Retirement and Death Benefits	9	(9,374)	(10,310)
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		(6,839)	(10,641)
Refunds to Members Leaving Service		(192)	(128)
		(64,242)	**(67,619)**
Net additions/(withdrawals) from dealings with members		**12,816**	**(1,232)**
Management Expenses	10	**(14,561)**	**(11,425)**
		(1,745)	**(12,657)**
RETURNS ON INVESTMENTS			
Investment Income	11	7,309	9,425
Profit and loss on disposal of investments and changes in the market value of investments	13	275,295	1,912
Net returns on investments		**282,604**	**11,337**
Net increase/(decrease) in the Fund during the year		**280,859**	**(1,320)**
Net assets at the start of the year		1,256,839	1,258,159
Net assets at the end of the year		**1,537,698**	**1,256,839**

NET ASSETS STATEMENT	Notes	31 March 2021 £'000	31 March 2020 £'000
Investments held by the Fund Managers:			
Equities - segregated funds	13	150	150
Equities - pooled funds	13	693,780	425,959
Private equity funds	13	151,782	114,466
Infrastructure funds	13	170,925	167,135
Fixed Interest funds	13	303,734	288,816
Pooled Property funds	13	181,250	177,291
Total Investments held by the Fund Managers		1,501,621	1,173,817
Other Balances held by the Fund Managers			
Cash held by the Fund Managers	13	10,578	9,809
Investment income due	13	666	1,271
Total Other Balances held by the Fund Managers		11,244	11,080
Total Assets held by the Fund Managers		1,512,865	1,184,897
Current Assets	16	29,567	93,415
Current Liabilities	17	(4,734)	(21,473)
Net Assets of the fund available to fund benefits		**1,537,698**	**1,256,839**

The fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial position of the fund which does take into account such obligations is dealt with in note 22.

1. GENERAL INFORMATION

In addition to acting as a Local Authority, Croydon Council administers the Local Government Pension Scheme. As a Local Authority it is accountable to the residents of the London Borough of Croydon for its stewardship of public funds. As an administering authority for the LGPS it is accountable both to employees who are members of the Pension Fund, and to past employees in receipt of a pension, for its stewardship of pension assets. The two roles, and the relevant interest groups, are significantly different. Consequently, the Pension Fund accounts are presented as a supplementary statement to clearly demonstrate the distinction.

The London Borough of Croydon Pension Fund (the Fund) operates a contributory Career Average Revalued Earnings (CARE) scheme whose purpose is to provide benefits to all of the Council's employees, with the exception of teaching and NHS staff, and to the employees of admitted and scheduled bodies who are members of the Fund. These benefits include retirement pensions and lump sums, ill-health retirement benefits and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:
the Local Government Pension Scheme Regulations 2013, (as amended);
the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, (as amended);
the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The financial statements have been prepared in accordance with the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice on Local Authority Accounting in the United Kingdom is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Below is a list of the admitted and scheduled bodies contributing to the Fund:

Admitted:
AXIS Europe plc (Housing Repairs), Brick by Brick Croydon Limited, Capita Secure Information Solutions Limited, Conway Construction & Training Ltd, Churchill Services Limited, Croydon Equipment Services Limited, Croydon Community Mediation, Croydon Voluntary Action, Impact Group Limited, Keyring Living Support Networks, London Hire Services Limited, Hats Group Ltd Olive Dining Limited, Roman Catholic Archdiocese of Southwark, Skanska Construction UK Limited, Sodexo Limited, National Cleaning Service Limited, Veolia Environmental Services (UK) Recycling Limited (Croydon), Vinci Facilities Limited, Veolia Environmental Services (UK) Recycling Limited (SLWP1) & (SLWP2), Wallington Cars & Couriers Limited, Arthur Mckay Limited, Greenwich Leisure Limited, Idverde Limited, Littlefish Managed IT Services, Westgate Cleaning Services Limited

Scheduled:
Meridian (Addington) High Academy, Aerodrome Primary Academy, Applegarth Academy, The Archbishop Lanfranc School, ARK Oval Primary Academy, Atwood Primary School, BRIT School, Broadmead Primary Academy, Castle Hill Academy, Chesnut Park Primary School, Chipstead Valley Primary School, Coulsdon College, Crescent Primary Academy, Croydon College, David Livingstone Academy, Orchard Park High School, Fairchildes Academy Community Trust, Forest Academy, Gonville Academy, Good Shepherd Catholic Primary, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Purley Way) Harris City Academy (Crystal Palace), Harris Primary Academy (Benson), Harris Primary Academy (Kenley), Harris Invictus Academy Croydon, Harris Primary Academy Haling Park, Heathfield Academy, New Valley Primary, Norbury Manor Business and Enterprise College, Oasis Academy Byron, Oasis Academy Arena, Oasis Academy Coulsdon, Oasis Academy Ryelands, Oasis Academy Shirley Park, Pegasus Academy Trust, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Rowdown Primary School, Shirley High School Performing Arts College, South Norwood Academy, St Chad's Catholic Primary School, Davidson Primary Academy, Krishna Avanti Primary School, St Cyprian's Greek Orthodox Primary School Academy, St James the Great RC Primary and Nursery School, St Joseph's College, St Mark's COE Primary School, St Mary's Infants School, St Mary's Junior School, St Thomas Becket Catholic Primary School, Winterbourne Junior Boys, West Thornton Primary Academy, Paxton Academy, Woodcote High School, The Woodside Academy, STEP Academy Trust, St Aidans Catholic Primary, Kingsley Primary Academy Folio Education Trust, Courtwood Primary, Monks Orchard Primary, Keston Primary, Glibert Scott, Manor Trust The Beckmead Trust, Tudor Academy

1. GENERAL INFORMATION (continued)

Management of the Fund
The London Borough of Croydon has a statutory responsibility to administer and manage the London Borough of Croydon Pension Fund on behalf of all the participating employers of the Fund in Croydon and the past and present contributing members and their dependents.

The Council is also responsible for making decisions governing the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Committee. The Pension Committee's responsibilities include reviewing and monitoring the Fund's investments: selecting and deselecting investment managers and other relevant third parties and establishing investment objectives and policies. The Pension Committee is made up of eight voting Members of the Council, two pensioner representatives (one voting), and a non-voting employee representative.
In addition, the Committee is supported by officers and external advisors.

2. INVESTMENT STRATEGY STATEMENT

This is published on the Croydon Pension Scheme web page
http://www.croydonpensionscheme.org/croydon-pension-fund/about-us/forms-and-publications

3. BASIS OF PREPARATION

Going Concern
The Pension Fund Accounts have been prepared on a going concern basis. That is the accounts assume that the Fund will continue in operational existence for the foreseeable future. This means, in particular, that the accounts assume that there is no intention to curtail significantly the scale of operations.

The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 gives administering authorities the option to disclose information about retirement benefits by reference to the actuarial report. Note 22 refers.

Note 1 (general information) above refers to the International Financial Reporting Standards applicable to this set of accounts. There are no standards issued that have not been adopted in preparation of this statement of accounts.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contribution income
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for in accordance with the agreement under which they are being paid. Pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income
- **Interest income**: Interest income is recognised in the fund account as it accrues.
- **Dividend income**: Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- **Distributions from pooled funds**: Distributions from pooled funds are recognised by our fund managers at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a financial asset.
- **Movement in the net market value of investments**: Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are recharged at year end from the Authority to the Pension Fund.

Oversight and Governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged to the Fund.

The cost of obtaining investment advice from the external advisors is included in oversight and governance costs.

Investment management expenses

All investment management expenses are accounted for an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. A proportion of the Council's costs representing management time spent by officers on investment management are recharged to the Fund.

Financial assets

A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. The majority of the Fund's financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. Any gains and losses arising from changes in the fair value are recognised in the change in market value in the Fund Account.
Quoted securities and Pooled Investment Vehicles have been valued at bid price. Quoted securities are valued by the Fund's custodian; Bank of New York Mellon. Pooled Investments, Private Equity Funds, Infrastructure Funds and Pooled Property Funds are quoted by their fund managers.
Loans and receivables consist of cash at bank, other balances investment balances and contributions receivable. They are initially recognised at fair value and subsequently at amortised cost. Impairment losses are recognised where appropriate, although no impairment has been deemed necessary.

Derivatives

Derivatives are valued at fair value on the following basis: assets at bid price and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund account.
The value of open futures contracts is determined using exchange prices at the reporting date.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the year end.

Cash and cash equivalents

Cash comprises cash in hand and term deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted by the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (see Note 22).

Additional voluntary contributions
The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential plc as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 21).

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability
The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted private equity and infrastructure investments
It is important to recognise the highly subjective nature of determining the fair value of many private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving factors which include the valuations of companies deemed comparable to the asset being valued, the future cash flow expectations and discount factors used.

6. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year.

Actuarial present value of promised retirement benefits
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the fund managers with expert advice about the assumptions to be applied.

The effects on the net pension liability can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £239m. A 0.5% increase in the salary increase assumption would result in a £14m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £221m increase to the pension liability.

Unquoted private equity and infrastructure investments
Due to the nature of private equity and infrastructure assets it is difficult to assess their true value until the assets are realised. Assumptions are made in the valuation of Unquoted private equities and infrastructure investments. Investment managers use the guidelines published by various bodies including the Financial Accounting Standards Board, the British Venture Capital Association and the Institutional Limited Partners Association.
The value of unquoted private equities and infrastructure at 31 March 2021 was £322.7m (2020: £282m).
There is a risk that these investments may be under or overstated in the accounts, although it is considered unlikely to have a material impact on the value of the Fund.

7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 2019 which calculated the total accrued liabilities to be £1,423m (2016: £1,203m). The market value of the Fund's assets at the valuation date was £1,258m (2016: £877m). The Fund deficit was therefore £165m (2016: £326m) producing a funding level of 88% (2016: 73%). The next triennial valuation will be effective as at 31 March 2022.

The contribution rates payable for 2020-21 were set at the Actuarial Valuation effective 31 March 2019.

The table below shows the contribution rates payable by each employer for 2020/21:

	% of pay	Additional sum £
London Borough of Croydon Pool		
London Borough of Croydon	26.2	-
Octavo Partnership Limited	6.5	-
Further Education Bodies		
Croydon College	25.8	-
(Community) Admission Bodies		
Croydon Voluntary Action	17.5	-
Croydon Community Mediation	18	4,000
Admission Bodies		
Impact Group Limited	0	-
London Hire Services Limited	0	-
Churchill Services Limited	0	-
Veolia Environmental Services (UK) Recycling Limited (Croydon)	29.7	-
Hats Group Ltd	33.5	4,000.0
Wallington Cars & Couriers Limited	0	-
Vinci Facilities Limited	40.3	-
Skanska Construction UK Limited	0	-
Sodexho Limited	16.5	-
AXIS Europe plc (Housing Repairs)	25.5	-
Capita Secure Information Solutions Limited	24.6	-
Keyring Living Support Networks	28.6	-
Westgate Cleaning Services Limited	32	-
Veolia Environmental Services (UK) Recycling Limited (SLWP1)	15.5	-
Veolia Environmental Services (UK) Recycling Limited (SLWP2)	17.5	
South London Waste Partnership Idverde	17.5	
Roman Catholic Archdiocese of Southwark	20.3	-
Croydon Equipment Services Limited	26.2	-
Arthur Mckay Limited		-
Greenwich Leisure Limited	4.2	-
Nationwide Cleaning Services Limited	34.2	-
Brick by Brick Croydon Limited	23	18,000
Conway Construction & Training Ltd	31.9	65,000
Olive Dining Limited	29	-
Luttlefish Managed IT Serivces	25.7	

Academies	% of pay	Additional sum £
Harris Academy (South Norwood)	14.2	
BRIT School	11.1	
Harris City Academy (Crystal Palace)	13.4	
St Joseph's College	27.9	
St Cyprian's Greek Orthodox Primary School	19.2	
Norbury Manor Business and Enterprise College	18.0	
Woodcote High School	19.2	
St James the Great R.C Primary	24.4	
Meridian (Addington) High Academy	17.0	
Riddlesdown Collegiate	18.4	
Shirley High School of Performing Arts College	18.8	
Oasis Academy Byron	19.4	
Robert Fitzroy Academy	15.4	
St Thomas Becket RC Primary	19.8	
Aerodome Primary Academy	18.3	
Oasis Academy Coulsdon	19.8	
Oasis Academy Shirley Park	20.1	
Harris Academy (Purley)	18.5	
The Quest Academy	22.0	
ARK Oval Primary Academy	15.2	
Pegasus Academy Trust	17.2	
Gonville Academy	18.6	
West Thornton Primary Academy	18.8	
David Livingstone Academy	13.2	
Applegarth Academy	17.8	
Harris Primary Academy Benson	20.8	
Harris Academy Primary Kenley	17.5	
Forest Academy	15.9	
Castle Hill Academy	17.9	
Atwood Primary School	23.0	
Winterbourne Junior Boys	36.7	
Oasis Academy Ryelands	22.6	
Chipstead Valley Primary School	20.1	
Fairchildes Primary School	14.5	
Broadmead Primary Academy	27.7	
Rowdown Primary School	21.5	
St Mark's COE Primary School	20.6	
New Valley Primary	22.2	
Archbishop Lanfranc School	30.8	
Harris Invictus Academy Croydon	13.5	
Harris Primary Academy Haling Park	15.5	
Paxton Academy	16.1	
Edenham High School	31.9	
St Mary's Infants School	24.6	
St Mary's Junior School	21.3	
Heathfield Academy	16.0	
Crescent Primary Academy	16.4	
Oasis Academy Arena	15.9	
Good Shepherd Catholic Primary	27.3	
South Norwood Academy	21.4	
Chesnut Park Primary School	16.4	
St Chad's Catholic Primary School	26.0	
St Aidan's Catholic Primary School	22.7	
Davidson Primary School	20.9	51,000
Krishna Avanti Primary School	13.4	
The Woodside Academy	20.8	
Kingsley Primary Croydon	26.3	
STEP Academy Trust	26.2	
Harris Primary Purley Way	14.1	
Tudor Primary Academy	17.4	
Folio Education Trust	19.2	
Courtwood	20.4	
Monks Orchard	22.9	
Keston Primary	23.6	
Gilbert Scott	25.2	
Manor Trust	19.8	
The Beckmead Trust	20.7	

Employees in the scheme are required by the Local Government Pension Scheme Transitional Regulations 2014 to make contributions to the Fund by deductions from earnings. The contribution rate payable is determined by the pay band applicable to each individual employee.
The pay bands for 2020/21 are detailed below:

Band	2020/21 Range £	Contribution Rate %
1	0 -14,600	5.5%
2	14,601-22,800	5.8%
3	22,801-37,100	6.5%
4	37,101-46,900	6.8%
5	46,901-65,600	8.5%
6	65,601-93,000	9.9%
7	93,001-109,500	10.5%
8	109,501-164,200	11.4%
9	164,201+	12.5%

Membership of the Fund consists of current and ex-employees not of pensionable age, retired employees and dependants.

	2020/21	2019/20	% change
Contributing members	10,044	10,064	(0.2%)
Deferred pensioners	11,532	10,923	5.6%
Pensioners	8,523	8,285	2.9%
Total	30,099	29,272	2.8%

8. CONTRIBUTIONS

By Authority:	2020/21 £'000	2019/20 £'000
Administering Authority	51,337	32,766
Scheduled bodies	14,615	15,813
Admitted bodies	3,104	3,629
	69,056	52,208

By Type	2020/21 £'000	2019/20 £'000
Employees normal contributions	14,743	13,965
Employers:		
Normal contributions	52,734	34,759
Deficit recovery contributions	120	2,616
Augmentation contributions	1,459	868
	69,056	52,208

9. BENEFITS

By Authority	2020/21 £'000	2019/20 £'000
Administering Authority	49,777	48,945
Scheduled bodies	3,571	3,542
Admitted bodies	3,863	4,363
	57,211	56,850

By Type	2020/21 £'000	2019/20 £'000
Pensions	47,837	46,540
Commutation and lump sum retirement benefits	7,947	9,076
Lump sum death benefits	1,427	1,234
	57,211	56,850

10. MANAGEMENT EXPENSES

	2020/21 £'000	2019/20 £'000
Administration	1,368	1,676
Oversight and Governance	818	1,041
Investment management	12,375	8,708
	14,561	11,425

Included in oversight and governance expenses is £25,000 (2020: £25,000) in respect of audit fees. Some investment managers charge fees within the fund's net asset value and these (implicit) fees are not easily identifiable. Investment management fees have been adjusted to reflect the implicit fees charged by managers and a corresponding adjustment has been made to the change in market value. For 2021 the implicit fee was £11,514,671 (2020: £7,949,000) Included in the investment management expenses are £876,835 (2020: £801,571) in respect of transaction costs.

11. INVESTMENT INCOME

	2020/21 £'000	2019/20 £'000
Equity dividends- segregated funds	(274)	(10)
Pooled Equity Income	194	676
Pooled Fixed Income	2,690	3,064
Pooled Property funds income	4,645	5,462
Interest on cash deposits	54	233
Total	7,309	9,425

12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	Legal and General Investment Management Limited (LGIM) and London LGPS CIV Limited underlying manager RBC (LCIV RBC)
Private equity	Knightsbridge Advisors LLC, Pantheon Ventures LLP, Access Capital Partners and North Sea Capital
Infrastructure	Equitix Limited, Temporis Capital Limited and Green Investment Group Management Limited (GIGM), Access Capital Partners and I-Squared Capital
Fixed Interest	Aberdeen Standard Investments, Wellington Management Company LLP and London LGPS CIV Limited underlying manager PIMCO (LCIV PIMCO)
Property	Schroder Investment Management Limited and M&G Investment Management Limited
Cash	Cash is invested by the in-house team

All managers have discretion to buy and sell investments within the constraints set by the Pension Committee and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.
The Pension Committee has authorised the Executive Director of Resources and Section 151 Officer to exercise delegated powers to vary the Pension Fund's target asset allocation between asset classes as is deemed necessary.

The market value and proportion of investments managed by each fund manager at 31 March 2021 was as follows

	2021		2020	
	Market £'000	Market %	Market £'000	Market %
LGIM	617,105	41.1%	425,959	36.2%
London LGPS CIV Limited (LCIV)	150	0.0%	150	0.0%
LCIV PIMCO	92,084	6.1%	84,104	7.2%
LCIV RBC	76,675	5.1%	-	-
Pantheon Ventures LLP (Pantheon)	65,783	4.4%	60,899	5.2%
Knightsbridge Advisors LLC (Knightsbridge)	52,584	3.5%	35,581	3.0%
Access Capital Partners (Access)	51,819	3.5%	32,673	2.8%
North Sea Capital	9,621	0.7%	4,829	0.4%
I-Squared Capital	19,742	1.3%	18,619	1.6%
Equitix Limited	73,240	4.9%	78,071	6.7%
Temporis Capital Limited (Temporis)	28,858	1.9%	28,627	2.4%
Green Investment Group Management Limited (GIGM)	21,060	1.4%	22,302	1.9%
Aberdeen Standard Investments (Aberdeen)	141,202	9.4%	132,328	11.3%
Wellington Management Company LLP (Wellington)	70,448	4.7%	72,385	6.2%
Schroder Investment Management Limited (Schroders)	119,136	7.9%	115,351	9.8%
M&G Investment Management Limited (M&G)	62,114	4.1%	61,939	5.3%
Total investments	**1,501,621**	**100.0%**	**1,173,817**	**100.0%**

13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2020	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Equities - segregated funds	150	0	0	0	150
Equities - pooled funds	425,959	55,194	(1,087)	213,714	693,780
Private equity funds	114,466	17,504	(27,286)	47,098	151,782
Infrastructure funds	167,135	17,376	(13,975)	389	170,925
Fixed Interest funds	288,816	2,762	(1,550)	13,706	303,734
Pooled Property funds	177,291	6,513	(2,993)	439	181,250
	1,173,817	**99,349**	**(46,891)**	**275,346**	**1,501,621**
Cash deposits	9,809			(18)	10,578
Investment income due	1,271			(33)	666
Net investment assets	**1,184,897**	**99,349**	**(46,891)**	**275,295**	**1,512,865**

	Market value 01 April 2019	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Equities - segregated funds	150	0	0	0	150
Equities - pooled funds	516,037	250,360	(318,229)	(22,209)	425,959
Private equity funds	114,703	9,728	(23,500)	13,535	114,466
Infrastructure funds	145,358	31,933	(19,226)	9,070	167,135
Fixed Interest funds	282,419	3,129	(1,282)	4,550	288,816
Pooled Property funds	178,566	5,359	(3,533)	(3,101)	177,291
	1,237,233	**300,509**	**(365,770)**	**1,845**	**1,173,817**
Cash deposits	6,452			67	9,809
Investment income due	1,557				1,271
Net investment assets	**1,245,242**	**300,509**	**(365,770)**	**1,912**	**1,184,897**

14. ANALYSIS OF INVESTMENTS

		2021 UK £'000	2021 Foreign £'000	2021 Total £'000	2020 UK £'000	2020 Foreign £'000	2020 Total £'000
Equities-segregated funds							
London CIV	Unquoted	150	-	150	150	-	150
Total equities		150	-	150	150	-	150
Equities - pooled funds							
LGIM	unit trust	-	617,105	617,105	-	425,959	425,959
LCIV RBC	managed fund	-	76,675	76,675	-	-	-
Total equities - pooled investments		-	693,780	693,780	-	425,959	425,959
Private equity funds							
Pantheon	managed fund	-	65,783	65,783	-	60,899	60,899
Knightsbridge	managed fund	-	52,584	52,584	-	35,581	35,581
Access	managed fund	-	23,794	23,794	-	13,157	13,157
North Sea Capital	managed fund	-	9,621	9,621	-	4,829	4,829
Total private equity funds		-	151,782	151,782	-	114,466	114,466
Infrastructure funds							
Equitix Limited	managed fund	73,240	-	73,240	78,071	-	78,071
Temporis	managed fund	27,700	1,158	28,858	27,322	1,305	28,627
GIGM	managed fund	21,060	-	21,060	22,302	-	22,302
Access	managed fund	-	28,025	28,025	-	19,516	19,516
I Squared	managed fund	-	19,742	19,742	-	18,619	18,619
Total infrastructure funds		122,000	48,925	170,925	127,695	39,440	167,135
Fixed interest funds							
Aberdeen	unit trust	141,202	-	141,202	132,328	-	132,328
Wellington	managed fund	-	70,448	70,448	-	72,385	72,385
LCIV PIMCO	managed fund	-	92,084	92,084	-	84,104	84,104
Total Fixed Interest funds		141,202	162,532	303,734	132,328	156,489	288,817
Pooled property funds							
Schroders	managed fund	119,136	-	119,136	115,351	-	115,351
M&G	managed fund	62,114	-	62,114	61,939	-	61,939
Total pooled property funds		181,250	-	181,250	177,290	-	177,290
Total investments		**444,602**	**1,057,019**	**1,501,621**	**437,463**	**736,354**	**1,173,817**

15. INVESTMENTS EXCEEDING 5% OF THE MARKET VALUE OF THE FUND

	2021 Market £'000	2021 % of Total Net assets	2020 Market £'000	2020 % of Total Net assets
Standard Life SLI Absolute Return Global Bond Strategies			66,659	5.3%
Standard Life Corporate Bond			65,669	5.2%
Wellington Sterling Core Bond Plus Portfolio			72,385	5.8%
LCIV PIMCO Global Bond Fund	92,084	6.0%	84,104	6.7%
LGIM FTSE Ex Tobacco World Equity Index	617,105	40.1%	425,959	33.9%

16. CURRENT ASSETS

	2021 £'000	2020 £'000
Cash balances	24,671	82,124
Other Local Authorities - Croydon Council	1,782	7,462
Other Entities and Individuals	3,114	3,829
	29,567	93,415

17. CURRENT LIABILITIES

	2021 £'000	2020 £'000
Other Local Authorities - Croydon Council	(3,262)	(19,612)
Other entities and individuals	(1,472)	(1,861)
	(4,734)	(21,473)

The amount due to Croydon Council relates to transactions between the Fund and the Council all of which were settled through the Pension Fund bank account after the year end.

18. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES

Related Parties

Related parties include:

a. Councillors and their close families
b. certain Officers and Managers
c. entities controlled by, and associates and joint ventures of, the Scheme itself
d. companies and businesses controlled by the Councillors or their close families

Councillor Pelling, the Chair of the Pension Committee is the Council Shareholder Representative for the London LGPS CIV Limited.

Officers and Managers

Related parties under this heading include:

a. key management (senior officers) of the Fund and their close families
b. companies and businesses controlled by the key management of the Fund, or their close families.

The key management personnel of the fund during the year were the Director of Finance, Investment and Risk (Section 151 Officer) and the Head of Pensions and Treasury.

During the year a charge of £104k (2020: £124k) was made to the Fund for their services.

The only other financial relationship that either Councillors or officers and managers have with the Fund is as prospective or actual pensioners for those who are scheme members.

19. DETAILS OF STOCK RELEASED TO THIRD PARTIES UNDER A STOCK LENDING ARRANGEMENT

There was no stock released to third parties under a stock lending arrangement.

20. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £123.1m at 31 March 2021 (2020:£102.3m) based on:

USD 56.5m at exchange rate 1.38 equals £41.0m (2020: £37.4m)
EUR 70.2m at exchange rate 1.17 equals £59.8m (2020: £42.8m)
GBP £22.3m (2020: £22.1m)

These commitments related to outstanding call payments due on Private Equity, Infrastructure and Property investments. The amounts 'called' by these funds are both irregular in size and timing over a period of usually 3 to 6 years from the date of the original commitment.

21. DETAILS OF ADDITIONAL CONTRIBUTIONS NOT INCLUDED IN PENSION FUND ACCOUNTS

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), there were no additional contributions included in the Pension Fund Accounts since all Additional Voluntary Contributions (AVCs), in total £172,017 for 2020/21 (£172,017 in 2019/20), are sent directly to the relevant AVC provider.
The value at 31 March 2021 of separately invested additional voluntary contributions was £1.7m (£1.72m in 2019/20).

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

London Borough of Croydon Pension Fund ('the Fund) Actuarial Statement for 2020/21
This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy
The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated May 2021. In summary, the key funding principles are as follows:

► 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 (this will also minimise the costs to be borne by Council Tax payers);

► 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.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation
The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £1,258 million, were sufficient to meet 88% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £165 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2019 valuation report.

Method
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 Mar 2019
Discount rate	4.0%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Aged 45 at the 2019 Valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly.
As a result, the funding level of the Fund as at 31 March 2021 is likely to be broadly similar to that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Pension Fund Accounts Reporting Requirement
Introduction
CIPFA's Code of Practice on Local Authority Accounting 2020/21 requires administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Croydon Pension Fund ('the Fund').

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in pension fund accounts:

► showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;

► as a note to the accounts; or

► by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 Mar 2021 £m	31 Mar 2020 £m
Active members	970	624
Deferred members	650	478
Pensioners	792	732
Present Value of Promised Retirement Benefits*	2,412	1,834

The promised retirement benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions
The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2021 and 31 March 2020. I estimate that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £474m.
I estimate that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £28m.

Financial Assumptions

Year ended	31 Mar 2020 %p.a.	31 Mar 2020 %p.a.
Pensions Increase Rate	2.85%	1.90%
Salary Increase Rate	2.85%	1.90%
Discount Rate	2.00%	2.30%

Longevity Assumption
Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a..
Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners (assumed to be age 45 at the latest formal	23.0 years	26.0 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation Assumptions
An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis
CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivies regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2021	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% increase in Pensions Increase Rate	9%	221
0.5% increase in Salary Increase Rate	1%	14
0.5% decrease in the Real Discount Rate	9%	239

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional Notes
This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2021 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Richard Warden FFA

23-Jun-21

For and on behalf of Hymans Robertson LLP

23. EVENTS AFTER THE REPORTING PERIOD

24. FINANCIAL INSTRUMENTS

Below is the target asset allocation agreed by Pension Committee and in force during 2020/21

Asset Class	Benchmark	Weighting
UK and Overseas Listed Equities	FTSE Dev ex Tobacco NetTax (UKPN) MSCI World Index Net (Total Return)	40% + / - 5%
Fixed Interest Securities	Bank of America Merrill Lynch Sterling non gilts all stocks index Bank of America Merrill Lynch Sterling Broad Market index Barclays Aggregate - Credit Index Hedged (GBP)	20% + / - 3%
Property	MSCI/AREF UK Quarterly Property Fund Index All Balanced property Index	10% + / - 3%
Private Rental Sector Property	Target return 6-8%	6%
Private Equity	CPI +5%	10%
Infrastructure	CPI +5%	14%
Cash and Short Term Deposits		0%
Total		**100%**

24. FINANCIAL INSTRUMENTS (Continued)

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. heading. The carrying value for Pension Funds is the same as the Fair Value.

31 March 2021

	Designated as fair value through profit and loss £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	303,734	-	-
Equities - segregated funds	150	-	-
Pooled property funds	181,250	-	-
Private equity funds	151,782	-	-
Infrastructure funds	170,925	-	-
Global equities - pooled investments	693,780	-	-
Other investment balances	-	11,244	-
Current Assets	-	29,567	-
Total Financial Assets	**1,501,621**	**40,811**	**-**
Financial Liabilities			
Current liabilities	-	-	(4,734)
Total Financial Liabilities	**-**	**-**	**(4,734)**
Net Assets	**1,501,621**	**40,811**	**(4,734)**

31 March 2020

	Designated as fair value through profit and loss £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	288,816	-	-
Equities - segregated funds	150	-	-
Pooled property investments	177,291	-	-
Private equity funds	114,466	-	-
Infrastructure funds	167,135	-	-
Global equities - pooled investments	425,959	-	-
Other investment balances	-	11,080	-
Current Assets	-	93,415	-
Total Financial Assets	**1,173,817**	**104,495**	**-**
Financial Liabilities			
Current liabilities	-	-	(21,743)
Total Financial Liabilities	**-**	**-**	**(21,743)**
Net Assets	**1,173,817**	**104,495**	**(21,743)**

24. FINANCIAL INSTRUMENTS (Continued)

Net Gains and Losses on Financial Instruments

	31 March 2021 £'000	31 March 2020 £'000
Financial assets		
Designated at fair value through profit and loss	275,346	1,845
Financial assets at amortised cost	(51)	67
	275,295	**1,912**
Financial liabilities		
Designated at fair value through profit and loss	-	-
Financial liabilities at amortised cost	-	-
	-	**-**
Total	**275,295**	**1,912**

Valuation of financial instruments carried at fair value
The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level One
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level Two
Financial instruments at Level 2 are those whose quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.
The pooled investment vehicles for global equities and fixed interest funds are classified as Level 2 as the fund valuations are based on the market prices of the underlying investments using evaluated price feeds.

Level Three
Financial instruments at Level 3 are those where at least one input, that could have a significant effect on the instrument's valuation, is not based on observable market data.

These instruments include various unquoted equity investments, Private Equity Funds, Infrastructure Funds and Pooled Property Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity and infrastructure funds are based on valuations provided by the General Partners to the funds in which the London Borough of Croydon Pension Fund has invested.

The General Partners use a variety of methods and assumptions based on market conditions existing at the statement of financial position date which is usually at the end of December. Valuations are then rolled forward to the 31 March.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December.

Valuations in Pooled Property Funds are carried out by qualified surveyors with relevant qualifications from the Royal Institute of Chartered Surveyors. All assets have been classified as level 3 as the inputs are considered to be unobservable and developed by the valuer using best information available where there is little or no market activity at the valuation date.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

24. FINANCIAL INSTRUMENTS (Continued)

Values at 31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at fair value through profit and loss				
Fixed Interest funds		303,734		303,734
Global equities - segregated funds			150	150
Pooled property investments			181,250	181,250
Private equity funds			151,782	151,782
Infrastructure funds			170,925	170,925
Global equities - pooled investments		693,780		693,780
Financial Assets at amortised cost				
Other investment balances	11,244			11,244
Current Assets	29,567			29,567
Total Assets	40,811	997,514	504,107	1,542,432
Financial Liabilities at amortised cost				
Current liabilities	(4,734)	-	-	(4,734)
Net financial assets	**36,077**	**997,514**	**504,107**	**1,537,698**

Values at 31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at fair value through profit and loss				
Fixed Interest funds		288,816		288,816
Global equities - segregated funds			150	150
Pooled property funds			177,291	177,291
Private equity funds			114,466	114,466
Infrastructure funds			167,135	167,135
Global equities - pooled investments		425,959		425,959
Financial Assets at amortised cost				
Other investment balances	11,080			11,080
Current Assets	93,415			93,415
Total Assets	104,495	714,775	459,042	1,278,312
Financial Liabilities at amortised cost				
Current liabilities	(21,473)	-	-	(21,473)
Net financial assets	**83,022**	**714,775**	**459,042**	**1,256,839**

24. FINANCIAL INSTRUMENTS (Continued)

Fair Value- Basis of Valuation

The basis of the valuation of each class of investment is set out in the table below. There has been no change in valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Asset type	Valuation hierarchy level	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting valuations
Pooled global equities	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Fixed income funds	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled property funds	Level 3	Closing bid price where bid and offer prices are published. Valuations of properties within the funds are carried out by qualified chartered surveyors with the relevant qualification from the Royal Institution of Chartered Surveyors.	Direct comparison with sales of similar properties. Discount rates and cash flow projections as part of income capitalisation approach.	Real Estate values can be affected by a number of factors including changes to global or local economic conditions, financial conditions of tenants, availability of debt financing, changes in interest rates, operational expenses, planning and environmental laws and other government legislation.
Private equity	Level 3	Annually at fair value using the net asset value per share (or its equivalent) as a practical expedient (ASC Topic 820, Fair Value Measurement) or market approach in accordance with International Private Equity and Venture Capital Valuation Guidelines.	Discount rates and futures cash flow projections. Evaluation based on recent market activity of comparable companies.	Events which can affect the assumptions and inputs used in determining valuations. These . include risk-free and benchmark interest rates, credit spreads and inflation rates. Expected price volatilities and correlations
Infrastructure	Level 3	Annually at fair value in accordance with IFRS 13 and International Private Equity and Venture Capital Valuation Guidelines	Discount rates and futures cash flow projections. Evaluation based on recent market activity of comparable companies.	Events which can affect the assumptions and inputs used in determining valuations. These include risk-free and benchmark interest rates, credit spreads and inflation rates. Expected price volatilities and correlations.

24. FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Fair Value Measurements within Level 3 assets

2020/2021	Market value 01 April 2020 £'000	Transfers to Level 3 £'000	Transfers out of Level 3 £'000	Purchases £'000	Sales £'000	realised gains/losses £'000	Unrealised gains/losses £'000	Market value 31 March 2021 £'000
Private Equity Funds	114,466			17,504	(27,286)	27,286	19,812	151,782
Infrastructure Funds	167,135			17,376	(13,975)	13,975	(13,586)	170,925
Pooled Property Funds	177,291			6,513	(2,993)	2,993	(2,554)	181,250
Unquoted Equity	150							150
Total assets	459,042	----	----	41,393	(44,254)	44,254	3,672	504,107

2019/2020	Market value 01 April 2019 £'000	Transfers to Level 3 £'000	Transfers out of Level 3 £'000	Purchases £'000	Sales £'000	realised gains/losses £'000	Unrealised gains/losses £'000	Market value 31 March 2020 £'000
Private Equity Funds	114,703			9,728	(23,500)	23,500	(9,965)	114,466
Infrastructure Funds	145,358			31,933	(19,226)	19,226	(10,156)	167,135
Pooled Property Funds	178,566			5,359	(3,533)	3,533	(6,634)	177,291
Unquoted Equity	150							150
Total assets	438,777	----	----	47,020	(46,259)	46,259	(26,755)	459,042

Sensitivity analysis of Level 3 assets
Due to the increased uncertainty brought about by Covid-19, 10% has been used to measure the sensitivity of all level 3 assets. .

Level 3 Asset	**Market value 31 March 2021 £'000**	**Value on Increase £'000**	**Value on Decrease £'000**
Private Equity Funds	151,782	166,960	136,604
Infrastructure Funds	170,925	188,018	153,833
Pooled Property Funds	181,250	199,375	163,125
Unquoted Equity	150	165	135
Total	**504,107**	**554,518**	**453,697**

Level 3 Asset	**Market value 31 March 2020 £'000**	**Value on Increase £'000**	**Value on Decrease £'000**
Private Equity Funds	114,466	125,913	103,019
Infrastructure Funds	167,135	183,849	150,422
Pooled Property Funds	177,291	195,020	159,562
Unquoted Equity	150	165	135
Total	**459,042**	**504,947**	**413,138**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions. A risk register is maintained and reviewed bi-annually.

Market Risk
This is the risk that financial loss could arise as a result of fluctuations in interest rates, foreign exchange rates, credit spreads and equity and commodity prices. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general,excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk
Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuers or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Price risk - sensitivity analysis

The following table demonstrates the change in net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	**Value £'000**	**Value on Increase £'000**	**Value on Decrease £'000**
At 31 March 2020	1,173,817	1,291,199	1,056,435
At 31 March 2021	**1,501,621**	**1,651,783**	**1,351,459**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Interest rate risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate risk is monitored and assessed against the strategic asset allocation benchmark.

Interest rate risk sensitivity analysis
The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Fixed interest funds, cash at bank and cash held by Fund managers are exposed to interest rate risk.

Assets exposed to interest rate risk	Value £'000	Value on 1% Increase £'000	Value on 1% Decrease £'000
At 31 March 2020	380,749	376,942	384,556
At 31 March 2021	**338,982**	**335,592**	**342,372**

Currency risk
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling (£GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than £GBP.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.
During the year 50% of the equities held by LGIM were fully hedged to £GBP.

Currency exposure - asset type	Asset Value as at 31 March 2021 £'000
Overseas equities securities (unhedged portion)	372,274
Overseas Private Equity and Infrastructure	200,707
Overseas fixed interest	162,532
Overseas Private Equity and Infrastructure (outstanding commitments)	100,753
Total assets	836,266

Currency risk - sensitivity analysis
The following table demonstrates the change in value of overseas assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value £'000	Value on 10% weakening of pound £'000	Value on 10% strengthening of pound £'000
At 31 March 2020	602,818	663,100	542,536
At 31 March 2021	**836,266**	**919,893**	**752,639**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk
Credit risk is the risk that parties in whom the Fund invests may fail to pay amounts that are due to the Pension Fund. For example an entity in which the Pension Fund invests may fail. This risk is minimised by investing in specialist fund managers across different asset classes and geographical regions. Additionally there is a risk that an admitted body will be unable to meet its contributions obligations. Contribution receipts are monitored monthly and, if necessary, remedial action is taken.

Credit risk also represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council invests in money market funds with a AAA rating from a leading rating agency and also with other local authorities.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past six financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2021 was £24.7m (£82.1m at 31 March 2020). This was held with the following institutions:

Summary	Rating at 31 March 2021	Balances as at 31 March 2021 £'000	Balances at 31 March 2020 £'000
Money Market Funds	AAA		
Goldman Sachs Sterling Liquid Reserves Fund		16,500	4,326
Deutsche Managed Sterling Fund			2,450
Insight Liquidity Funds			11
JPMorgan Sterling Liquidity Fund			9,727
Aberdeen Standard Liquidity Fund			2
Other Local Authorities			65,000
Current Account			
NatWest Bank		8,171	608
Total		24,671	82,124

Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings including cash invested in money market funds. The Fund defines liquid assets as assets that can be converted to cash within three months. Non-liquid assets are those assets which will take longer than three months to convert into cash. All financial liabilities at 31 March 2021 are due within one year.

Refinancing risk
The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

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REPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**Review of Breaches Log**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION

The Committee is asked to:

1.1 Consider the contents of the Pension Fund Breaches Log, Appendix A, and to comment as appropriate.

2. EXECUTIVE SUMMARY

2.1 It is a requirement of The Pension Regulator for the Pension Fund to maintain a breaches log detailing incidences where breaches have occurred. In line with the recommendations of the Aon Hewitt Governance Review, on 15 September 2020 the Committee agreed the revised Reporting Breaches of the Law Policy. This included a requirement for the Committee to monitor breaches on a regular basis. This report presents the current log (Appendix A) for the Committee's consideration and comment.

3 DETAIL

3.1 The Pension Act 2004 ("The Act", s 70) imposes duties on certain persons to report breaches of the law as follows:

70 Duty to report breaches of the law

(1) Subsection (2) imposes a reporting requirement on the following persons—
(a) a trustee or manager of an occupational or personal pension scheme;

(b) a person who is otherwise involved in the administration of such a scheme;

(c) the employer in relation to an occupational pension scheme;

(d) a professional adviser in relation to such a scheme;

(e) a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

(2) Where the person has reasonable cause to believe that—

(a) a duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions, he must give a written report of the matter to the Regulator as soon as reasonably practicable.

(3) No duty to which a person is subject is to be regarded as contravened merely because of any information or opinion contained in a written report under this section. This is subject to section 311 (protected items).

(4) Section 10 of the Pensions Act 1995 (c. 26) (civil penalties) applies to any person who, without reasonable excuse, fails to comply with an obligation imposed on him by this section. In line with this legislation the Pensions Regulator requires that a Breaches Log is maintained by the Fund. In their Governance Review Aon Hewitt recommended that the log was reviewed regularly by the Pension Committee. It was last reviewed on 25 May 2021. The current log is attached (Appendix A).

3.2 In this context a breach of the law is “an act of breaking or failing to observe a law, agreement, or code of conduct.” In the context of the LGPS this can encompass many aspects of the management and administration of the LGPS, including failure:

- to do anything required under the Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- to comply with policies and procedures (e.g. the Fund’s statement of investment principles, funding strategy, discretionary policies, etc.);
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time or non-compliance with the Code.

3.3 Since the Committee last reviewed the Log 1 entry has been removed and 3 entries have been amended. The entry removed is in respect of failure of the scheme employer to obtain a report from a Registered Medical Practitioner as it applied to October 2017and is outside of the previous three year period covered by the log. .The entries that have been amended are in respect of failure to pay a refund of scheme contributions which has been updated to show case numbers at 31 October 2021 and the average value of each refund, the entry around failure to produce meeting minutes which has been updated in light of the report being considered by the Committee at the 3 December 2021 meeting and the entry concerning failure to publish the Fund accounts for 2019/20; a report is going to committee to be considered at the 3 December 2021

3.4 The Committee is asked to consider the contents of the Breaches Log and to comment.

4. CONSULTATION

4.1 Officers have previously consulted with both the Pension Committee and Local Pension Board on the template for the Breaches Log which forms the basis of the report.

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the Pension Committees role is to ensure 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.

6.2 Section 70 of the Pensions Act 2004 (‘the Act’) imposes a requirement on the following persons (‘reporters’) to report breaches of the law as it applies to the management and administration of the pension fund:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and

- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

6.3 The duty is to report the matter to The Pensions Regulator in writing as soon as is reasonably practicable where that person has reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to The Pensions Regulator

6.4 Under the Act a person can be subject to a civil penalty if they fail to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override ‘legal privilege’. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

6.5 In addition, under the Pensions Regulator’s Code: *Reporting breaches of the Law*, the Pensions Regulator has responsibility for regulatory oversight of the governance and administration of public service pension schemes, including the Local Government Pension Scheme (LGPS). The Pensions Regulator has published guidance in the Code of Practice no 14 (Governance and administration of public service pension scheme (‘the Code’). Paragraphs 241 to 275 of the Code deal with reporting breaches of the law.

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

7. HUMAN RESOURCES IMPACT

7.1 The Council will need to ensure appropriate action and advice is provided to retiring employees and retired employees in its capacity as the employer and pensions scheme administrator

Approved by: Dean Shoesmith, Interim Chief People Officer

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Dean Shoesmith, Interim Chief People Officer

CONTACT OFFICER:

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

APPENDIX:

Appendix A: Breaches Log

BACKGROUND DOCUMENTS:

None.

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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	Comments
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 and 2% for deferred members not issued. The issues are being addressed so that notifications can be sent.		
Aug-20	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. There was an error suppressing ABS for members over age 65 and under NPA. The technical team issued 98.69% of the statements due. They are continuing to work on the remainder.	The matter was not referred to the Pensions Regulator. All the issues were identified through error reports and are being resolved. Statements have been or are being sent to all individuals where a statement was required.		Not reported. Only 2.12% for active and 0.27% for deferred members not issued. The issues are being addressed so that notifications can be sent.		
Aug-21	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.	The team managed to issue 99.94% of annual benefit statements.	The matter was not referred to the Pensions Regulator. All the issues were identified through error reports and are being resolved. Statements have been or are being sent to all individuals where a statement was required.		Not reported. Officers will continue to attempt to resolve any outstanding issues so that the remaning notifications can be sent.		

Jan-21	Administration	**Failure to inform 100% of scheme members of their calculated benefits (refund or deferred) – backlog cases**	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.	Historical backlog is impacting performance. Hymans Robertson have been engaged to provide administration services to clear this backlog,	The issue has been identified and action taken to rectify it. Outsourcing the historical backlog provides greater administrative capacity , mitigting the risk of recurrence. This has therefore been judged as not necessary to report to the Pensions Regulator.		Not reported to The Pensions Regulator.		
Sep-21	Administration	Failure to pay a refund of scheme contributions to members of the pension fund, who left after the 01 April 2014 with less than two years membership, within 5 years of leaving (regulation 18(5) of the LGPS Regulations 2013). Current number of cases as at 31 October 2021 is 249. The average net refund value per case is £333.74	Possible tax implications for the member if the refund is paid after 5 years. Burden of administration resources to repeatedly chase members.	Administration team use last known address or email address provided by the employer to send details to former members making them aware of their options and the 5 year deadline when leaver calculation processed. A quarterly check of the LGPS NI database is made to see if an automatic transfer is due to another LGPS fund. Reports run quarterly to find those approaching 5 year period/age 75 – admin team to try to make contact again – address searches carried out if required.	The matter has not been reported to the Pension Regulator. The fund has made all reasonable efforts to trace and inform members of their options. The fund is reliant on members responding in order to comply with the regulations. The Fund's approach is in line with Technical Group recommendations (see Technical Group minutes 28 September 2018)		N/A		https://www.lgpslibrary.org/assets/minutes/TG20180928.pdf
Oct-21	Administration	Failure to produce minutes for Pension Committee Meetings in contravention of the 1972 Local Government Act Regulation 100C (F16 (a))	Without minutes any decisions made are not recorded and so have no legal basis. Any actions taken as a result of those decisions have no legal authority. There is no public access to decisions taken, preventing openess and challenge.	The matter was discussed at the meeting on 14 September 2021. Democratic Services have been experiencing resourcing issues and backlogs of all Council Committee meeting minutes have arisen. The team are now fully resourced and will be trying to catch up on the backlog and produce future minutes in a more timely fashoin moving forward. Members requested that officers look into sourcing external minuting provision in respect of Pension Meetings to safeguard Fund business.	Officers have designated the breach as amber in line with TPR guidance. Whilst there is an impact on the administration of the Fund, action has been taken to resolve the issue. However, the Chairs of the Board and Committee took the decision to report the matter to the Regulator, which has been done.		A Report prepared by democratic services on minutes is being considered by the Pension Committee at their meeting on 3/12/2021. It will ask members if they want external provision for producing Fund minutes to be provided. If so then democratic services will put this in place. Democratic Services have assured the Committee Chair that the minutes for the meeting of 14/9/2021 will be available in time for the 3/12/2021 meeting.	Democratic Services to act on the decision of the Pension Committee on minute provision and providing any missing minutes	

Sep-21	Finance	Failure of the Fund to publish the Fund Accounts for year 2019/20 by 30 September 2020.	Lack of accurate data available on which to base funding requirements. This could result in insufficient funds to pay all benefit liabilities.	A report on the Annual report and Fund Accounts 2019/20 is being considered by the Pensions Committee in their meeting on 3 December 2021 and they will be published on the website.	The matter has not been reported to the Pension Regulator. Progress has been delayed due to the issuing of the Section 114 notice applicable to Croydon and, more widely, to the impact of the Covid 19 pandemic. Many other LGPS Funds have been unable to finalise their accounts due to the impact of the pandemic. The failure to sign off the accounts does not relate to a failure on the part of the Fund to produce them but with delays in the audit process which is beyond the control of the Fund. The breach has been rated as green but a view on this is welcomed from Members.		N/A	Head of Pensions to continue to liaise with Audit on progress	

Breaches Process

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: Assess whether Material / Immaterial	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is considered and if deemed necessary it 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 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

Rating	Description	Breach occurred		Breach identified		Action taken	Decision	
	Cause, effect, reaction and wider implications considered together ARE LIKELY to be of material significance	Error has occurred	PLUS	Errors not recongnised	PLUS	No action taken to rectify and tackle the cause	MUST Report to TPR	
	Cause, effect, reaction and wider implications considered together MAY be of material significance	Error has occurred	PLUS	Errors rectified	PLUS	Systemic causes not addressed so issue may arise again	MAY Report to TPR	Consider the evidence and make a decision.
	Cause, effect, reaction and wider implications considered together ARE NOT Likely to be of material significance	Error has occurred	PLUS	Errors rectified	PLUS	Systemic causes addressed to mitigate against issue arising again	DON'T Report to TPR	

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REPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**Update on funding position as at 30 September 2021**
LEAD OFFICER:	**Nigel Cook - Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report updates the Committee on the application of the Funding Strategy for the Pension Fund.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATION

1.1 The Committee is asked to note the funding update provided by the Scheme Actuary.

2. EXECUTIVE SUMMARY

2.1 This report updates the Committee on the performance of the Pension Fund since the last actuarial valuation.

3 DETAIL

3.1 A paper has been commissioned from the Scheme Actuary by the Council as Administering Authority of the London Borough of Croydon Pension Fund ("the Fund"). Its purpose is to provide the Fund with an update on the overall fund level funding position as at 30 September 2021, how it compares to the position at the last formal valuation of the Fund carried out as at 31 March 2019 and subsequent funding considerations. That paper is appended to this report as Appendix A.

3.2 The review has found that since the 2019 valuation, as at 30 September 2021:

3.2.1 The past service funding position has improved from a deficit of £165m (88% funded) to a surplus of £102m (107% funded). This funding position is based on the Fund targeting an annual future investment return which has a 75% likelihood of being achieved. The improvement has been largely driven by strong investment performance since 31 March 2019.

3.2.2 Expected future investment returns: Despite volatility in the markets since early 2020, the outlook for future investment returns remains similar to the 2019 formal valuation. At 30 September 2021, the Actuary estimates that the Fund's asset allocation has a 75% likelihood of achieving an annual return of at least 4.0% p.a. (at 31 March 2019, the equivalent return was also 4.0% p.a.).

3.2.3 Fully funded required rate: The future investment return required to be notionally fully funded has fallen from 4.8% p.a. to 3.5% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 66% to 81%. Therefore, the Fund is now more likely to achieve the future returns needed to pay members benefits as they fall due.

3.2.4 The impact on future contributions (indicative) relates to primary and secondary contributions:

- Secondary rate contributions: the improved past service funding position will have a positive impact on Secondary rate contributions, all else being equal.
- Future service cost (Primary rate contributions): The cost of future benefit accrual has increased. Longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

3.3 The improved position presents funding strategy options, including:

3.3.1 To reduce employer contributions – the Fund might consider using the stronger funding position to relieve contribution pressure on employers i.e. use the funding surplus to offset some of the future cost of benefits.

3.3.2 Review investment strategy – consider reducing the risk in the investment strategy.

3.3.3 Build up a risk reserve – consider maintaining a risk reserve to mitigate any future adverse experience.

3.4 The decision will depend on the Fund's views and priorities, and could be a mixture of some or all of the above three options.

4. CONSULTATION

4.1 Officers have consulted with the Scheme Actuary

5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no financial considerations arising from this report.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive.

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that there are no direct legal implications arising from the recommendations in this report. The Committee must, however be mindful of their fiduciary duty to obtain the best possible financial return on the investment of the Fund it administers within the investment strategy framework.

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

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Dean Shoesmith, Interim Director of Human Resources

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

Approved by: Nigel Cook, Head of pensions and Treasury

CONTACT OFFICER:

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

APPENDIX:

Appendix A: Update on funding position as at 30 September 2021, Hymans Robertson, November 2021

BACKGROUND DOCUMENTS:

None.

Update on funding position as at 30 September 2021

Executive summary

Since the 2019 valuation, as at 30 September 2021:

- **Past service funding position:** The past service funding position has improved from a deficit of £165m (88% funded) to a surplus of £102m (107% funded). This funding position is based on the Fund targeting an annual future investment return which has a 75% likelihood of being achieved. The improvement has been largely driven by strong investment performance since 31 March 2019.
- **Expected future investment returns:** Despite volatility in the markets since early 2020, the outlook for future investment returns remains similar to the 2019 formal valuation. At 30 September 2021, we estimate that the Fund's asset allocation has a 75% likelihood of achieving an annual return of at least 4.0% p.a. (at 31 March 2019, the equivalent return was also 4.0% p.a.).
- **Fully funded required rate:** The future investment return required to be notionally fully funded has fallen from 4.8% p.a. to 3.5% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 66% to 81%. Therefore, the Fund is now more likely to achieve the future returns needed to pay members benefits as they fall due.
- **Impact on future contributions (indicative)**
  - **Secondary rate contributions:** the improved past service funding position will have a positive impact on Secondary rate contributions, all else being equal.
  - **Future service cost (Primary rate contributions):** The cost of future benefit accrual has increased. Longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

The improved position presents funding strategy options, including:

1. **Reduce employer contributions** – the Fund might consider using the stronger funding position to relieve contribution pressure on employers i.e. use the funding surplus to offset some of the future cost of benefits.
2. **Review investment strategy** – consider reducing the risk in the investment strategy.
3. **Build up a risk reserve** – consider maintaining a risk reserve to mitigate any future adverse experience.

The decision will depend on the Fund's views and priorities, and could be a mixture of some or all of the above three options.

1 Purpose and scope

This paper has been commissioned by and is addressed to Croydon Council as Administering Authority of the London Borough of Croydon Pension Fund ("the Fund").

Its purpose is to provide the Fund with an update on the overall fund level funding position as at 30 September 2021, how it compares to the position at the last formal valuation of the Fund carried out as at 31 March 2019 and subsequent funding considerations.

Information regarding the data, assumptions, methodology and funding risks associated with the results in this paper is contained in the Appendix.

In particular it should be noted that the financial assumptions have been derived as per the Funding Strategy Statement in force as at the 31 March 2019 formal valuation of the Fund.

2 Valuations in the LGPS

Formal funding valuation

A funding valuation is required to be carried out by the LGPS Regulations every 3 years at a specified date. The most recent valuation was carried out as at 31 March 2019 and the next valuation will be at 31 March 2022. The purpose of the valuation is to review the current funding strategy and ensure the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due.

There is a requirement to report a single funding position at each formal valuation, based on a single set of assumptions. To do this we compare the value of the Fund's assets on that date against the expected cost (including an allowance for future investment returns) of all the future benefit payments accrued up to the valuation date (the liabilities). Using an assumption about the future investment return generated from the Fund's assets then allows a value to be placed on these payments in today's money. This is known as a "mark to market" approach. The higher the assumed investment return, the lower the liability value and therefore the higher the funding level.

Section 13 valuation

After each formal valuation, the Government Actuary's Department (GAD) carries out an analysis of all English & Welsh LGPS Funds under Section 13 of the Public Service Pensions Act 2013. This "Section 13" analysis presents metrics in a "like-for-like" fashion, so that reasonable comparisons can be made between Funds. For this comparison of actuarial valuation results, national best-estimate assumptions are used as opposed to each fund's local funding assumptions. The Section 13 valuation is not designed to be used to make any funding decisions i.e. setting contribution rates or asset allocation decisions.

Employer contribution reviews

From 23 September 2020, the LGPS Regulations allow the Fund to recalculate employer contributions outside of the triennial formal valuation under one of the following circumstances (i) a significant change to the liabilities of an employer; (ii) significant change in the employer's covenant; or (iii) at the request of the employer. In line with DLUHC guidance, any changes in market and demographic conditions/assumptions since the previous formal valuation are not allowed for in the review.

Funding valuation update

Funding update valuations can be requested at any time. These can either be carried out using full membership data or using approximate methods. These updates are good practice and allow the Fund to monitor funding progress and risks between formal funding valuations.

The rest of this paper forms a funding valuation update. Calculations are based on the methodology and assumptions from the 31 March 2019 funding valuation, but have been updated to reflect recent market conditions.

3 Change in funding position since 2019 valuation

The Fund's liabilities are the future benefit payments due to members in respect of their service accrued in the Fund. Future benefit payments will be in respect of both service accrued up to today ("past service") and service that will be accrued in the future ("future service").

To better understand the Fund's past service liabilities, we have detailed below in Chart 1 the projected annual future benefit payments due to all members in respect of service earned up to 30 September 2021:

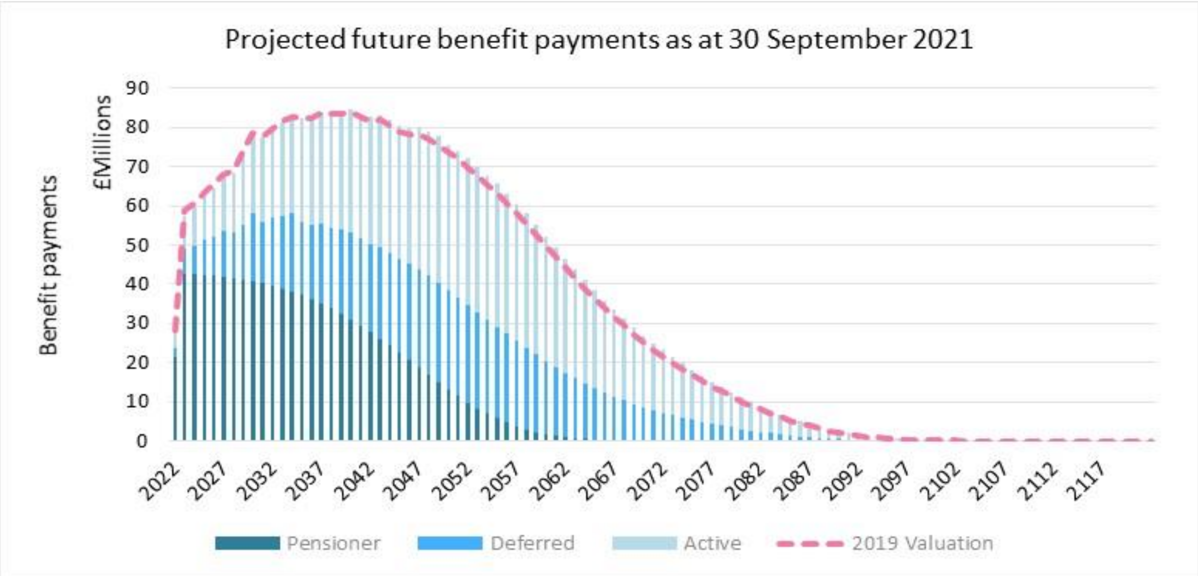
- **Pensioners**: those members currently in receipt of their benefits;
- **Deferreds**: those members who have left the Fund but are yet to retire; and
- **Actives**: those members who are still participating in the Fund and accruing service.

The member group classification is based on each individual member's status as at the last formal valuation (31 March 2019) and the figures are in nominal terms.

The projected benefit payments are based on the membership data and the financial and demographic assumptions used for the 2019 formal valuation and in line with the Funding Strategy Statement (FSS) dated April 2021. However, they have been updated to reflect actual pension increases since the valuation and changes in future long-term inflation expectations derived consistently with the approach in the current FSS. Actual pension increases at April 2020 and April 2021 were less than expected (1.7% vs. 2.3% and 0.5% vs 2.3% respectively) and market derived long-term inflation expectations have risen since 31 March 2019 *(noting that no allowance has been made for any changes resulting from RPI reform).*

The pink line on Chart 1 below shows the total projected annual future benefit payments as they were at 31 March 2019. As at 30 September 2021,the impact of lower than expected pension increases has resulted in a slight reduction in the projected benefit payments in the short term, but the impact of higher long-term inflation expectations has resulted in a slight increase in the projected benefits in the long term.

Chart 1



Asset Values and Projected Asset Returns

As at 30 September 2021, the Fund's asset value was £1,652m, increased from £1,258m at the last valuation. The Fund's assets are the accumulation of employer and member contributions and are there to pay all the member benefits accrued to date. The investment return since March 2019 has been c.31%.

At 30 September 2021, we estimate that the Fund's asset allocation has a 75% likelihood of achieving an annual return of at least 4.0% p.a. over the medium term (at 31 March 2019, the equivalent return was also also 4.0% p.a.). Therefore, despite volatility in the markets since early 2020, the outlook for future investment returns remains similar to the 2019 formal valuation.

Funding Level

The funding level is derived as the ratio of the value of the Fund's assets to the value of its accrued liabilities. Actual benefit payments in the future will be in respect of both service accrued up to today ("past service") and service that will be accrued in the future ("future service"). However, the funding level presented is only in respect of past service benefits.

The funding level is only a snapshot in time based on a single set of assumptions about the future and is therefore sensitive to the choice of assumptions, in particular the expected future investment return assumption.

Chart 2 below shows how the funding level varies with the future investment return assumption at 30 September 2021 (**green line**). For comparison, we have also shown the results of the same analysis as at 31 March 2019 (**blue line**). Along each line we have highlighted points which show the likelihood of the Fund's assets achieving the corresponding assumed future investment return. The likelihoods are those that were estimated at the relevant date i.e. 31 March 2019 or 30 September 2021.

Chart 2

The key conclusions from the above chart are:

- Regardless of the investment return assumption used, there has been an improvement in the funding position at 30 September 2021 compared to the 2019 valuation, reflecting an increase in assets held today per pound of benefit to be paid out in future.

- Based on the Fund targeting an annual future investment return which has a 75% likelihood of being achieved, the past service funding position has improved from a deficit of £165m (88% funded) to a surplus of £102m (107% funded). The improvement has been largely driven by strong investment performance since 31 March 2019.
- The future investment return required to be notionally fully funded has fallen from 4.8% p.a. to 3.5% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 66% to 81%. Therefore, the Fund is now more likely than not to achieve the future returns needed to be fully funded.

Summary of result

Reported funding position	31 March 2019	30 September 2021
Assets (£m)	1,258	1,652
Past service liabilities (£m)	1,423	1,550
Surplus/(Deficit) (£m)	**(165)**	**102**
Funding level	88%	107%
Assumed future investment return	4.0%	4.0%
Likelihood of achieving this return*	75%	75%
Fully funded target	**31 March 2019**	**30 September 2021**
Funding target	100%	100%
Future investment return required to be 100% funded	4.8%	3.5%
Likelihood of achieving this return*	**66%**	**81%**

** Based on the expected returns of the Fund's current portfolio of investments over the next 20 years.*

- **Past service funding position:** The past service funding position has improved from a deficit of £165m (88% funded) to a surplus of £102m (107% funded). This funding position is based on the Fund targeting an annual future investment return which has a 75% likelihood of being achieved. The improvement has been largely driven by strong investment performance since 31 March 2019.
- **Expected future investment returns:** The outlook for future investment returns is similar to the last formal valuation over the medium term. At 30 September 2021, we estimate that the Fund's asset allocation has a 75% likelihood of achieving an annual return of at least 4.0% p.a. over the next 20 years (at 31 March 2019, the equivalent return was also also 4.0% p.a.).
- **Fully funded required rate:** The future investment return required to be notionally fully funded has fallen from 4.8% p.a. to 3.5% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 66% to 81% Therefore, the Fund is now more likely than not to achieve the future returns needed to be fully funded.
- **Other factors to consider:** there is still a 19% chance that future investment returns would not be sufficient to fully fund all the accrued benefits. In addition to this investment risk, there are other major risks that are likely to be of important focus at the 2022 valuations, in particular life expectancy and climate change. We would recommend that these risks are analysed, understood and managed.

4 Outlook for 2022 valuation

Indicative impact on future contributions

The LGPS Regulations require employer contribution rates to be broken down into:

- the Primary contribution rate – defined as the actuarial cost of new benefits being earned by current employees (active members) expressed as a percentage of pensionable pay; and
- the Secondary contribution rate – any adjustment to the primary contribution rate (such as additional contributions to repair any deficits).

Employer contributions are reviewed and certified every 3 years at formal valuations. The next formal valuation of the Fund will be at 31 March 2022. Therefore, the impact on employer contributions described below is purely indicative based on the funding update at 30 September 2021. Any changes in markets before the next formal valuation will affect these projections.

Secondary rate contributions

Secondary rate contributions are paid by employers to target a funding position over an agreed time horizon (as detailed in the Fund's FSS). Employers have their own funding plans within the Fund with varying funding positions and time horizons.

It can be inferred that the improved past service funding position at 30 September 2021 is likely to have a positive impact on Secondary rate contributions at the next valuation for the average employer, all else being equal.

Of course, any changes in funding position (and any impact on contribution rates) will be varied across the Fund's employers and is dependent on each individual employer's membership.

Primary rate contributions

As discussed above, the past service funding position has improved. However, being 100% funded in a scheme like the LGPS which is open to future accrual and new entrants, is not the endgame. For the average fund, two-thirds of the benefit payments made over the next 50 years will be in respect of benefits yet to be earned. This will include benefits earned by existing members (new accrual) and benefits earned by new members who begin service in the LGPS after the valuation date (new joiners). The assets held today only cover past service benefits – we still need to fund those benefits yet to be earned.

As at 30 September 2021, longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

The increased cost of future accrual will lead to increased Primary contribution rates. For the average employer any increases in Primary contribution rates may be partially (or wholly) offset by reductions in Secondary contribution rates.

Important caveats

There are many moving parts and as such the following caveats apply to these results:

- the funding position and cost of future benefit accrual may change when an allowance is made for RPI reform and the resulting impact on future inflation expectations;
- the impact on the rates of different employers will vary depending on their membership profile;
- the judgements relating to McCloud and Goodwin will impact employers differently (the above analysis doesn't make any allowance for these matters); and
- any change to market conditions and the outlook for future returns will impact contribution requirements.

5 Funding considerations

As set out in Section 3, the position of the Fund (and its employers) has improved since the 2019 formal valuation and there is a past service funding surplus. This is a similar current position to most other LGPS funds, and it presents a different kind of challenge for the LGPS to the one that it has faced over the last two decades. In the past, a large focus has (rightly) been on plugging deficits and reaching 100% funding. The challenge now is to consider the options available to take advantage of the gains made in recent years. These options include:

1 **Reduce employer contributions** – the Fund might consider using the stronger funding position to relieve contribution pressure on employers i.e. use the funding surplus to offset some of the future cost of benefits.

2 **Review investment strategy** – for any pension fund, the way to solidify a strong funding position is to remove or reduce future sources of risk. Given investment risk is the most significant threat for the Fund, the improved current strong funding position might be considered an appropriate time to 'de-risk' the investment strategy. This is typically achieved in a number of different ways:

   - Cut the investment risk – this would involve selling growth assets and purchasing protection assets e.g. selling equities and purchasing gilts. Although gilts are priced high (at the moment), so too are equities.
   - Diversify the investment risk – this would involve increasing the allocation to asset classes which pay an alternative risk premium to equities, such as property, infrastructure and private debt. The income associated with the return on these assets could also be used to help manage the Fund's cashflow requirements.
   - Hedge the investment risk – implement strategies that involve derivatives or fixed income assets to explicitly hedge specific risks.

   However, one of the challenges when considering de-risking is the fact that the Fund is open to both new accrual and new joiners. This puts a natural brake on how far the Fund is able to remove investment risk. In considering the options available to the Fund on managing investment risk, the focus should be on simplicity and delivering the best outcomes for the lowest cost. In particular, de-risking the past service position leaves a greater cost relating to future service (i.e. higher Primary contribution rates for employers). This is a long-term balance which needs to be carefully struck.

3 **Build up a risk reserve** – the Fund may consider it to be appropriate to continue the current level of investment risk and employer contributions with the objective of maintaining a surplus as a risk reserve or cushion to mitigate any future adverse experience.

There is no right answer or correct route to follow around these options. The decision will depend on the Fund's views and priorities, and could be a mixture of some or all of the above three options.

6 Next steps

The paper has been provided for information purposes only and does not seek to propose any changes to the Fund's funding or investment strategy. The indicative contribution rate impact should not be taken as suggestions for rates that will payable at the next formal valuation or advice that contribution rates need to be amended before the next valuation.

7 Reliances and limitations

This paper has been prepared for Croydon Council as Administering Authority of the London Borough of Croydon Pension Fund for the purpose described above. It has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Technical Actuarial Standard 100 is applicable in relation to this advice, and has been complied with where material and to a proportionate degree.

This report together with the formal valuation report for the Fund (issued March 2020) and the Fund's Funding Strategy Statement set out the aggregate of our advice.

Prepared by:-

Robert McInroy FFA Richard Warden FFA

November 2021

For and on behalf of Hymans Robertson LLP

Appendix

Assumptions and methodology

Liabilities

All demographic and financial assumptions underlying the benefit projections are as per the 31 March 2019 formal valuation with the exception of the future inflation assumption (which affects the rate of future pension increases, CARE revaluation and salary increases).

Further details about the assumptions can be found in the 2019 formal valuation report dated March 2020.

The future long-term inflation assumption used in the benefit projections as at 30 September 2021 is 2.5% p.a.. Therefore, as at 30 September 2021 we have assumed that:

- Future pension increases are 2.5% p.a.
- Future CARE pot revaluation is 2.5% p.a.
- Future salary increases are 2.5% p.a.

Note, no allowance has been made for RPI reform whereby it is expected that RPI will align with CPIH from 2030 onwards. As part of the 2022 valuation, the Fund will need to consider how this announcement is reflected in the assumption made for long term CPI inflation expectations (to which the majority of benefits are linked).

The benefit projections assume that membership experience since 31 March 2019 has been in line with the assumptions made. At a whole fund level, this assumption is reasonable to make and, for the purpose of this paper, we do not expect this to result in a material inaccuracy.

We have also allowed for additional benefit accrual between 1 April 2019 to 30 September 2021. This allows comparison with the Fund's asset value as at 30 September 2021.

To calculate the expected future investment returns, we have used our proprietary Economic Service Scenario ("ESS") model, and the same methodology used at the last formal valuation. Further details about the ESS model, and the calibration of the model as at 31 March 2019, can be found in the 2019 valuation formal report dated March 2020.

The calibration of the model as at 30 September 2021 is detailed below. The following figures have been calculated using 5,000 simulations of the ESS, calibrated using market data as at 30 September 2021. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields for at that time horizon. Only the overall Fund portfolio returns are shown, however similar information for separate asset classes is available on request.

		Portfolio returns	Inflation (RPI)	17 year real yield
5 years	16th %'ile	0.0%	2.5%	-2.5%
	50th %'ile	4.4%	4.1%	-1.6%
	84th %'ile	8.5%	5.7%	-0.8%
10 years	16th %'ile	1.7%	2.1%	-1.8%
	50th %'ile	4.9%	3.7%	-0.6%
	84th %'ile	8.1%	5.3%	0.6%
20 years	16th %'ile	3.2%	1.3%	-0.7%
	50th %'ile	5.9%	2.9%	1.0%
	84th %'ile	8.4%	4.5%	2.7%
	Dispersion (1 year)	9%	1.4%	

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -2.4% (1.4%) to 1.0% (3.2%).

Assets

The asset value as at 30 September 2021 has been provided to us by the Fund. To derive the level of likelihood associated with certain level of expected future returns, we have used the ESS model as described above and the Fund's current strategic asset allocation:

% allocation	
Absolute return bonds	23%
Cash	1%
Global Equity	42%
Infrastructure (equity)	5%
Infrastructure debt	5%
Private equity	8%
Property	16%
Total	**100%**

Model limitations

The models used to calculate the results in the paper make some necessary simplifying assumptions. I do not consider these simplifications to be material and I am satisfied that they are appropriate for the purposes described in this report.

Funding Risks

Please see the FSS for details of the funding risks that apply to the future ability of the Fund to pay all members' benefits. These include, but are not limited to:

- Market risks – these include investment returns being less than anticipated or liabilities increasing more than expected due to changes in market conditions underlying the financial assumptions (e.g. inflation or pay increases above that assumed etc.).
- Demographic risks – these include anything that affects the timing or type of benefits (e.g. members living longer than anticipated, fewer members opting into the 50/50 option, etc.).

- Regulatory risks – the LGPS is a statutory scheme. There is a risk that central Government legislation could significantly change the cost of the scheme in future.

  In particular, the benefit structure of the LGPS is currently under review as a result of the consultation on the McCloud and Sargeant judgement, HM Treasury's and Scheme Advisory Board's cost-sharing valuations as well as the recent outcome of the Goodwin tribunal. Benefit changes as a result of these issues may materially affect the value of benefits earned by members both in the past and future. I have made no direct allowance for these changes and may need to review my calculations once the outcomes are known.

- Administration and Governance risks – failures in administration processes can lead to incorrect actuarial calculations. For example, where membership data is not up to date (e.g. leaver forms not being submitted in a timely matter) material inaccuracies in respect of the level of deficit and contributions may occur at future valuations.

- Resource and Environmental risks – i.e. risks relating to potential resource constraints and environmental changes, and their impact on Fund employers and investments: such risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the Fund, I have not explicitly incorporated such risks in this advice. The Administering Authority may wish to seek direct advice on these risks.

Sensitivity of results

The results in this report are dependent on factors including future market conditions, the membership details and demographic trends such as longevity. Changes in each of these factors can have a material impact on the results. I have not sought to quantify the impact of any changes other than the below. If further information about the sensitivity of the results to different data or assumptions is required, this can be provided on request.

The results are extremely sensitive to market conditions, in particular the future investment returns assumption and future inflation. The approximate impact of a 0.1% change in either assumption (i.e. lower investment returns or higher inflation) is noted below:

0.1% change in future investment return (or inflation) assumption	
Increase in liabilities (%)	2%
Impact on funding position (£m)	£25m loss

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REPORT TO:	**Pension Committee 3 December 2021**
SUBJECT:	**Progress Report for Quarter Ended 30 September 2021**
LEAD OFFICER:	**Nigel Cook - Head of Pensions and Treasury**

CORPORATE PRIORITY/POLICY CONTEXT:

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.

FINANCIAL SUMMARY:

This report provides Members with performance information regarding investment of the pension Fund. Appendix A and Appendix B contain commercially sensitive reports prepared by the Council's advisers to inform the Committee and are exempt from publication

This report shows that the market value of the Pension Fund (the Fund) investments as at 30 September 2021 was £1,652.1m compared to £1,619.3m at 30 June 2021, an increase of £32.8m and a return of 2.22% over the quarter. The performance figures, Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor Mercer.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1 RECOMMENDATIONS

This report provides Members with performance information in relation to the Pension Fund over the most recent quarter ended 30 September 2021.Performance analysis and market commentary provided by Mercer are included at Appendix A and Appendix B respectively but are withheld from publication in view of the commercially sensitive nature of the information contained.

1.1 The Committee is asked to note the performance of the Fund for the quarter ended 30 September 2021.

1.2 The Committee is asked to note the investment advice set out in paragraph 3.6.9, to divest £33m from the LGIM developed world (ex-tobacco) equity fund with the proceeds being invested in the Pimco Global Bond Mandate which is offered through the London CIV.

1.3 Agree to the high level portfolio structure set out in paragraph 3.6.12 with an immediate action to increase the allocation to LCIV Sustainable Equity Exclusion Fund (RBC) by £52m (20% of the strategic equity allocation)

1.4 Undertake a high level strategy review focussing on the approach to currency hedging and allocation to alternatives

1.5 Investigate LCIV PEPPA and LCIV RIF in more detail (including liquidity profile)

1.6	Look at the other LCIV equity managers to fill the final slot (if neither are deemed appropriate we will re-visit the underlying allocations)

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 quarter to 30 September 2021. 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 meetings. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report. This report makes recommendations to the Committee as to how to amend the current asset allocation to incorporate the results of recent discussions by Members.

3. DETAIL

Section 1: Performance

3.1 At the 2019 Triennial Actuarial Valuation the whole of fund funding position was 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. was 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 Since the valuation date the Fund has made a cumulative return of 32.75% against a return of 10.3% assumed by the valuation. This has had a positive impact on the funding level.

3.3 Details of the performance of individual components of the portfolio are detailed in the report produced by the Fund's investment advisors in Appendix A.

Section 2: Asset Allocation Strategy

3.4 The Pension Committee discussed changes to the current asset allocation strategy at the Committee meeting held on 17 March 2020 (Minute A27/20 refers). However, reviewing the current allocation it is apparent that the target allocation cannot yet be applied as it has not been formally adopted because, as per the Minute – "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." The prudent option is therefore to measure allocation against the prior allocation. This option is supported by the Pension Fund's investment advisers. Any proposal to amend this asset allocation will require a period of consultation with other Scheme Employers.

3.5 The target portfolio can be broken down as follows:

Asset Class		***Target Allocation***	***Allowable Tolerance***
Equities including allocation to emerging markets. Fixed interest Alternates *Comprised of:*		42% 23% 34%	+/- 5% +/- 5% +/- 5%
Private Equity Infrastructure Property	8% 10% 16%		
	Cash	**1%**	
	Total	**100%**	

3.6 **Monitoring of asset allocation**

3.6.1 **Global Equity –** During the quarter the LGIM Developed World (ex-Tobacco) Equity fund returned 1.28%. The currency hedge curbed the returns slightly as Sterling weakened against most other major currencies, although the hedge has still led to over £22m of excess gains since its implementation.

The LCIV RBC fund continues to perform well and returned 3.64% over the quarter.

Officers and Advisers are currently looking at new products offered by the London CIV with the view to decarbonise the equity portfolio further. Officers are conscious of the need to do this, but need to ensure that this does not bring excess risk to the Fund and does not impede on returns.

Global equities are now at 45.9% compared to the target allocation of 42% with a 5% tolerance. This has largely been due to equity returns significantly outpacing most of the other areas of the portfolio over the last few years.

3.6.3 **Fixed Interest** – During the quarter fixed interest returns were pretty flat returning negative 0.1%. The allocation is 18.5% which is within the target allocation of 23% allowing for a 5% tolerance.

3.6.2 **Infrastructure** – Due to the nature of the assets, performance of Infrastructure investments and indeed Private Equity, discussed in more detail below, is better measured over a period of time, rather than on a quarter by quarter basis. All the Fund's Infrastructure investments are performing in line with their targets.

The Fund has increased commitments with some of its existing managers and is also assessing opportunities with the London CIV. The allocation currently stands at 10.7% compared to a target of 10%.

3.6.4 **Private Equity** – Our Private Equity managers continue to perform extremely well and have been the main contributor to positive returns over the last few years. The performance of private equity investments tends to follow the same direction as global equities. The allocation is at 10.1% which is above the target allocation of 8%.

3.6.5 **Property** – The Property allocations have increased from 12.1% to 12.3% over the quarter. This is well short of the target of 16% and is largely as a result of the excess returns from global equities. Commercial property investments suffered as a result of COVID-19, however the Property portfolio has now returned 6% in the first half of the year.

3.6.6 The Fund's investment advisers, Mercers, were asked to provide advice in respect of the asset allocation. The rest of this section sets out that advice.

3.6.7 Due to the continued strong performance of equities, the Fund's equity allocation (46% of total assets) has moved overweight versus the benchmark position (42% of assets as per the most recently published Investment Strategy Statement). This overweight position has been beneficial to 30 September and beyond as equities have continued to deliver while bond yields have (on the whole) risen.

3.6.8 The Fund's equity position is starting to approach the upper end of the operational range set at 47%. As such, the Pensions Committee ("the Committee") may want to consider rebalancing the position to control risk. To balance a disciplined approach to risk versus regret risk of equities continuing to outperform, in the first instance we would recommend rebalancing the equity portfolio half-way back to the benchmark position. This means reducing the equity portfolio by 2% of total assets or £33m.

3.6.9 If the Committee want to make this rebalancing move we would suggest divesting £33m from the LGIM developed world (ex-tobacco) equity fund with the proceeds being invested in the Pimco Global Bond Mandate with LCIV. This reflects:

- The consideration of increasing the allocation to the RBC mandate;
- Underweight position to fixed income and the liquidity of the portfolio ; and
- The fixed income review currently in the work plan and the fact the Pimco mandate was the most recently selected component of the fixed income portfolio, is the only fixed income allocation that is pooled and has been the strongest performing fixed income fund. As such of all the fixed income funds, the Pimco mandate is the one most likely to remain in the long-term. We also understand from LCIV that the mandate excludes tobacco credits.

3.6.10 The following paragraphs provide a high level view of the Fund's equity allocation and answer specific questions posed by the Committee Chair on behalf of the Pensions Committee. They refer to funds managed by the London Collective Investment Vehicle or LCIV.

LCIV PEPPA Fund

3.6.11 The PEPPA fund is still relatively new. Having done initial investigations on it, Mercer would be supportive of an allocation to PEPPA as a Responsible Investment (RI) aware passive approach. Mercer notes that there is not a currency hedged version of the PEPPA fund for the Fund to replicate the current approach to currency management. LCIV would need to be asked to set-up an FX version of the PEPPA fund or a different approach to currency hedging would need to be adopted. More details of the LCIV PEPPA fund are included in Part B of this agenda.

Portfolio Structure

3.6.12 Ideally the equity portfolio should demonstrate a diversification across styles, approach, sectors and risks. Having looked at the options currently available on LCIV and bearing in mind the governance of the Pensions Committee this report recommends the Committee investigate a high level portfolio structure with a RI aware passive core with active managers satellite managers appropriately sized. This table sets out this recommendation.

Approach	Current Allocation	Suggested Allocation	Current Manager	Suggested Approach
Passive/RI Passive	88%	60%	LGIM Dev World (ex-tobacco) 50% fx hedged	Undertake full due-diligence on LCIV PEPPA fund including approach to currency hedging.
Active manager 1	12%	20%	LCIV Sustainable Equity Exclusion Fund (RBC)	Increase allocation to fund by c.£52m (to fill strategic allocation)
Active manager 2 (optional)	0%	20%	None	Continue to hold allocation passive. Investigate other active manager options on LCIV.*

3.6.13 The following funds on LCIV are suitable for investigation for the active manager 2 slot given the Fund's ESG policy:

1. LCIV Global Equity Core (to be renamed Resilient Quality Global Equity), managed by MSIM (exclusion to be formalised in Q1 2022).
2. LCIV Global Alpha Growth Paris Aligned Fund managed by Baillie Gifford (exclusion due to adherence to Paris-aligned benchmark exclusions).

These options would need further investigation as to their suitability.

LCIV Renewable Infrastructure Fund

3.6.14 The attached note (Appendix C: London CIV: Renewable Infrastructure Fund) sets out the information on the LCIV Renewable Infrastructure Fund ('RIF'). Mercer would be supportive of an allocation to RIF, however given the lock-up period and fund nature, it would more naturally sit in the alternatives portfolio. This would necessitate an increased strategic allocation to alternatives, formally agreed and reflected in the Investment Strategy Statement. That can be investigated as part of the strategic asset allocation review in early 2022. That said given the liquidity of the RIF fund, the Committee may wish to investigate RIF in tandem with that review.

Next steps

3.6.15 The following next steps are recommended:

1. To agree to the high level portfolio structure set out in paragraph 3.6.12 with an immediate action to increase the allocation to LCIV Sustainable Equity Exclusion Fund (RBC) by £52m (20% of the strategic equity allocation);
2. Divest £33m from the LGIM developed world (ex-tobacco) equity fund with the proceeds being invested in the Pimco Global Bond Mandate with LCIV;
3. To undertake a high level strategy review focusing on the approach to currency hedging and allocation to alternatives;
4. To investigate LCIV PEPPA and LCIV RIF in more detail (including liquidity profile); and
5. To look at the other LCIV equity managers to fill the final slot (if neither are deemed appropriate to re-visit the underlying allocations).

3.6.16 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 30 September 2021

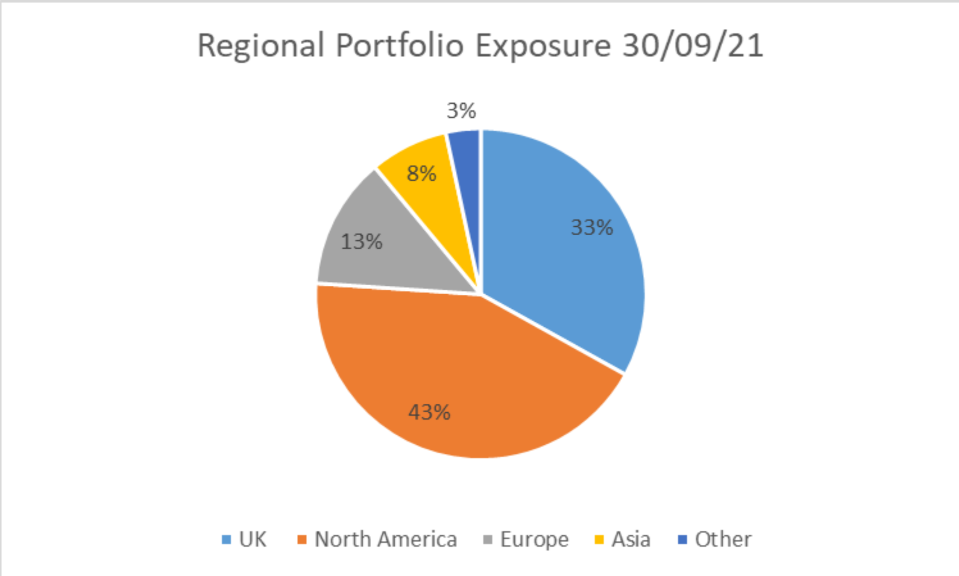
	Valuation at 30/06/2021 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 30/09/2021 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					45.9%	42%
Legal & General FTSE World (Ex Tobacco)	663,292	-	8,621	671,912		
LCIV RBC	83,773	-	3,168	86,941		
LCIV	150			150		
Fixed Interest					18.5%	23%
Standard Life	141,825	-	-1,707	140,118		
Wellington	71,527	-	-1,179	70,348		
LCIV Global Bond	94,642	-	98	94,740		
Infrastructure					10.7%	10%
Access	28,619	53	31	28,703		
Temporis	29,754	-	2	29,756		
Equitix	75,989	-1,152	419	75,256		
Macquarie GIG Renewable Energy	21,000	-410	-	20,590		
I Squared	20,995	1,092	543	22,631		
Private Equity					10.1%	8%
Knightsbridge	51,216	-1,399	9,290	59,106		
Pantheon	70,527	-4,353	8,773	74,948		
Access	21,122	-785	22	20,359		
North Sea	10,554	782	1,407	12,743		
Property					12.3%	16%
Schroders	133,869	-	5,782	139,651		
M&G	62,365	-234	605	62,736		
Cash					2.5%	1%
Legal & General FTSE4Good Cash	727	-	11	738		
Cash	37,380	3,298	-	40,678		
Fund Total	1,619,324	-3,106	35,886	1,652,104	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 Committee asked for an indication of the geographical dispersion of the underlying assets comprising the portfolio. This 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 33% invested in the UK 12.3% is allocated to Property and 7.5% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US and Canada.

Section 3: Risk Management

3.7 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.

3.8 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.

3.9 Mercer, the Fund's investment adviser, have drafted a Fund Monitoring Report, for the 3 months to 30 September 2021. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Visits

3.10 During the quarter, Officers met the following managers:

- Temporis July 2021;
- The London CIV about their Passive Equity Progressive Paris Aligned Fund (PEPPA), July 2021;
- M&G, August 2021; ; and
- The London CIV's Medium Term Financial Strategy September 2021.

These visits help develop the relationship between investor and fund manager and count against training day requirements.

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.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that there are no direct legal implications arising from the recommendations within this report. The Committee must, however, be mindful of their fiduciary duty to obtain the best possible financial return on the investment of the Fund it administers within the investment strategy framework.

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

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Dean Shoesmith, Interim Chief People Officer

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

11.1 This report and Appendices contain confidential information which could be of a sensitive nature, disclosure of which could prejudice the commercial interest of the companies involved and those of the Council's Pension Fund and will be reported in the closed part of the agenda. On application of the public interest test it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Approved by: Nigel Cook, Head of Pensions and Treasury

CONTACT OFFICER:

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

APPENDICES:

Part A

There are no Part A appendices.

Part B

Exempt 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 September 2021, Mercer
Appendix A: London Borough of Croydon Investment performance report – quarter to 30 September 2021, Mercer exempt from public disclosure under paragraph 3 of schedule 12A of the Local Government Act 1972, as amended and the public interest in withholding this information outweighs the public interest in disclosure.

Appendix B: Market Background and Market View Q3 2021, Mercer
Appendix B: Market background and outlook – 30 September 2021, Mercer exempt from public disclosure under paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended and the public interest in withholding this information outweighs the public interest in disclosure.

Appendix C: London CIV: Renewable Infrastructure Fund, Initial Information, Mercer, November 2021

Appendix D: London CIV: PEPPA Fund, Initial Information, Mercer, November 2021

BACKGROUND DOCUMENTS:

Included in Part B of the agenda.
Quarterly reports from each fund manager (circulated under separate cover to the Committee Members.) Exempt pursuant to Schedule 12A paragraph 3 of the Local Government Act 1972 as amended.

REPORT TO:	**Pension Committee** **3 December 2021**
SUBJECT:	**Minute Taking at meetings of the Pension Committee and Pension Board**
LEAD OFFICER:	**Richard Ennis, Interim Corporate Director of Resources**
WARDS:	**All**

SUMMARY OF REPORT: Following a request at the most recent Pension Committee meeting, this report provides Members with an opportunity to consider alternative provision for minute taking of Pension Committee and Pension Board meetings.

FINANCIAL IMPACT: Any costs arising from a decision to source external minute taking provision will be met from the Pension Fund.

RECOMMENDATIONS:

The Committee is recommended to:

1.1 Consider the report and determine if external minute taking services are required for the Pensions Committee and the Pension Board;

1.2 If the Committee determines that external minute taking services are required for either or both the Pension Committee and Pension Board, note that the Interim Corporate Director of Resources will procure such services for an initial period of twelve months, subject to recommendation 1.3 below, at which point the Committee will evaluate and review those arrangements; and

1.3 Consider the accompanying Part B paper that sets out the recommended budget for procuring such services.

1. BACKGROUND

1.1 Members of the Committee may be aware that the Council has been unable to meet its statutory requirements regarding the timely production of minutes since November 2020. This situation has been a consequence of several factors, including: the COVID 19 pandemic; the Council's financial position; now rescinded advice from the Council's External Auditors, Grant Thornton; and a number of staffing vacancies during that period.

1.2 The issue of the timely production of minutes has led to the Committee asking for alternative minute taking options to be explored for both the Pension Committee and the Pension Board.

2. ISSUES

2.1 The Pensions Regulations require the Council to provide both the Pensions Committee and the Pensions Board with the necessary resources to enable their efficient running.

2.2 The Council produces minutes to the standards required by statute, and this is detailed in full in report presented to the General Purposes and Audit Committee meeting held on the 16 September 2021 (see https://democracy.croydon.gov.uk/documents/s32332/GPAC%20-%20Update%20on%20minute%20production%20v1.3.pdf).

2.3 While the Council has taken a number of actions to clear its backlog of minutes of Council and Committee meetings, it remains unlikely that it will be able to meet its statutory requirements in relation to the timeliness of minutes until at least the 2022/23 financial year.

2.4 Some Members of the Committee have further highlighted the challenges facing staff that aren't experts on pension funds being required to produce appropriately detailed minutes that accurately capture the technical language of the considerations and advice that forms part of the Committee's deliberations.

2.5 To that end, it has been proposed that the Committee considers procuring specialist external minute taking services in order to:

i) ensure that minutes of meetings of the Pension Committee and Pension Board meet the statutory requirements regarding the timeliness of their production; and

ii) through the use of staff with greater expertise in pension funds, support the efficient production of minutes that more fully capture the nuances of the technical advice and considerations of the Committee and Board in taking decisions and making recommendations regarding the Fund.

2.6 If considering this option, there are a number of factors that the Committee should be cognisant of. These include:

i) That the cost of any additional provision, and that those costs will be met entirely from the Pension fund;

ii) That all clerking services, other than minute taking, will continue to be provided to the Pension Committee and Pension Board by Democratic Services on behalf of the Council;

iii) That externally produced minutes will need to be produced in accordance with both the relevant statutory and constitutional provisions and will be subject to the same Access to Information requirements and approval processes as minutes produced by Council staff; and

iv) That any such arrangement should be routinely reviewed.

2.7 Should the Committee be minded to pursue an external minute taking option for the Pension Committee and the Pension Board, then it is further recommended that the appropriate procurement processes be undertaken followed to purchase provision for a twelve month period, comprising of five meetings of both the Pension Committee and Pension Board.

3. CONSULTATION

3.1 Consultation has taken place with the Chair of the Pension Board, who supports the proposal on the basis that it would:

i) Be a good investment in the work of the Pension Board and the Pension Committee; and

ii) Support the move to “clear blue water” between the Pension Fund and the Authority.

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

4.1 Please see the accompanying Part B report and for details of the recommended budget for procuring external minute taking services.

4.2 Any additional costs will be met from the Pension Fund.

5. LEGAL CONSIDERATIONS

5.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that local government law requires the creation and subsequent keeping of minutes in relation to council meetings held in public together with their authentication. This specifically includes an obligation to make such minutes available for public inspection for a period of 6 years beginning with the date of the meeting under the Local Government Act 1972 section 100C.

5.2 Separately the Council’s Constitution requires that a record is made of the decisions taken at every meeting of a Committee or Sub-Committee. The minutes shall also include a record of the Members in attendance, those absent and any apologies received.

5.3 The Constitution also provides that all minutes (except those prepared following a meeting of an Appointments Committee or Licensing Sub-Committee) shall be considered for approval at the next meeting of the Committee or Sub-Committee to which they relate and shall be open to question as to their accuracy before being signed.

5.4 The legal requirement to make available minutes for public inspection is also replicated in the Access to Information Procedure rules within the Council's Constitution.

5.5 Any procurement process undertaken must comply with all relevant procurement law and in particular the Tenders and Contract Regulations in the Council's Constitution.

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

6. HUMAN RESOURCES IMPACT

6.1 There are no human resources impacts, other than those described in the body of the report, for Croydon Council staff or employees.

(Approved by: Gillian Bevan, Head of HR, Resources and Assistant Chief Executives, on behalf of the Director of Human Resources)

7. DATA PROTECTION IMPLICATIONS

7.1 The recommendations in this report will not involve the processing of personal data.

CONTACT OFFICER:

Stephen Rowan, Head of Democratic Services and Scrutiny

APPENDICES TO THIS REPORT:

There are no appendices to this report.

BACKGROUND DOCUMENTS:

There are no unpublished documents on which this report is based.

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Agenda Item 16

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