

# **CROYDON PENSION FUND**

## **Medium Term Business Plan 2020-2023**

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## **1. INTRODUCTION**

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

## **2. PURPOSE OF THE BUSINESS PLAN**

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

## **3. GOVERNANCE AND MANAGEMENT**

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

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

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

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

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

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

## **4. AIMS, PURPOSES AND FUNDING OBJECTIVES**

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

The aims of the Fund are to balance:

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

The purposes of the Fund are to:

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

The funding objectives are:

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

## **5. STATISTICS**

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

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

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

## **6. REVIEW OF 2019/2020**

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

Specific projects included:

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

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

## 7. WORK PROGRAMME

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

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

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

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



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

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

## 8. INVESTMENTS

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

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

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

<b>Cash</b>		<b>11.1</b>	<b>0.9</b>	<b>0</b>
<b>TOTAL</b>		<b>1,184.9</b>	<b>100.0</b>	<b>100.0</b>

## 9. CASHFLOW

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

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

\*See table in paragraph 10.1 below

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

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

## 10. RESOURCES

### Finance

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

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

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

## Staff

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

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

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

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

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

## **11. TRAINING AND DEVELOPMENT**

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

## **12. KEY POLICY DOCUMENTS**

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