

REPORT 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:	
<p>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.</p>	
FINANCIAL SUMMARY:	
<p>This proposal has implications for the Council and the Pension Fund and will impact on the level of contributions required of the Council.</p>	

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that the decision of Full Council of 28th January 2019, involving transfer of properties into the Pension Fund, be rescinded.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- 3.2 For a number of reasons this proposal no longer represents an appropriate course of action for the Pension Scheme nor for the Council as a Scheme Employer.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:

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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.