

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

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### **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.