

REPORT TO:	PENSION COMMITTEE 13 April 2022
SUBJECT:	Asset Allocation
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: This report relates to the statutory process that ensures the Pension Fund will be adequately funded to meet future pension benefit liabilities.

FINANCIAL SUMMARY:

Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.

1 RECOMMENDATIONS

- 1.1 To note the report.

2. EXECUTIVE SUMMARY

- 2.1 This report describes the processes which will run during the rest of the year, culminating in the actuarial valuation results. The report outlines the impact of other factors on the valuation.

DETAIL

- 3.1 Built in to the Local Government Pension Scheme regulations are a set of checks and balances to ensure the future viability of the Scheme. These ensure that there is an acceptable level of likelihood that there will be sufficient funds in the Pension Fund to meet the Scheme's obligation to pay benefits, as set out in the regulations, at the moment and in the future. Conversely the structure allows the level of risk of there being insufficient funds to be measured and understood. This process culminates in the contribution levels set by the triennial actuarial valuation – these are employer contribution rates; staff contributions are set by the regulations. In parallel with the work undertaken by the Scheme Actuary, the asset allocation strategy is assessed to ensure that, in a number of scenarios, the investments comprising the Fund will generate a return sufficient that there is an acceptable likelihood that the investments will grow at a rate sufficient that liabilities can be met from these investments but also that the funding gap, the deficit, will be closed within a reasonable period of time, currently 20 years. In addition, reflecting stake-holders concerns about issues around climate change, the climate emergency, and net zero carbon as well as Socially responsible investment, and Corporate Governance issues, there needs to be a policy and plans to deliver measurable outcomes to deliver these. Finally, these processes all need to be understood and viewed through the lens of the government's pooling agenda and the role of the London Collective Investment Vehicle (the London CIV).

- 3.2 In effect this means that each administering authority needs to run four processes alongside each other. These processes relate to the Triennial Actuarial valuation and the assessment at the Whole Fund level; a review of the asset allocation and the suitability of the asset mix to deliver a target return under a range of critical scenarios; a measure of the extent to which the Pension Fund's Environment, Social and Corporate Governance policy is realistic and will deliver the intended outcomes; and finally a measure of the extent to which this can be delivered by the London CIV, according to the government guidance. The overall timeframe for this is quite tight.
- 3.3 Before considering a realistic and achievable timetable a measure of the resources that will be required would be helpful. Work has started on assembling the data for the next triennial valuation. The actuary will put on training sessions for the committee to ensure the principles underpinning the valuation are understood. The investment advisors will model a number of different economic scenarios to assess the fit of the current or proposed asset allocation. The London CIV will be brought into these discussions to allow them to see the extent to which their offering and investment philosophy matches Croydon's policies. Clearly a number of processes have to happen in parallel and this will involve the scheme Actuary, the investment advisor and also the officer team.
- 3.4 The Committee will need to understand and agree a number of key measures. The portfolio consists of investments in different asset classes each of which portrays different characteristics under different circumstances. Taken as a whole an assessment of the potential performance of these assets provides a measure of the Committee's Risk appetite and a return goal – currently 4% p.a. This measure will take into consideration the reduction in employer contributions from the Council in the last and current years. The Committee has set ESG and SRI goals and they will consume part of the risk budget mentioned above.
- 3.5 A final point in respect of external factors that will need to be considered. More than ever in the recent period, the Committee will need to form a view on how it assesses a number of micro-economic factors. It is likely that the next period will see global volatility in all markets but in particular the Committee will need to consider the destabilising impact on the global economy of Russia invading Ukraine; the impact of Brexit working its way through the UK economy; the fuel crisis; the continued influence of the growth of the Chinese economy; global inflation and the commensurate increase of interest rates. Depending on corporate policy the short-term liquidity of the Fund may also be a significant factor. The indicator flagged by the recent White Paper and the letter from the Secretary of State that LGPS Funds should be directed to local infrastructure projects will also need to be taken into consideration.
- 3.6 To summarise this process, here are the steps of the actuarial valuation, at a high level: the other processes discussed will be incorporated into the Forward Plan.

June 2022

Training on the Triennial Valuation and a discussion around the actuarial assumptions.

September 2022

Whole Fund valuation results.

March 2023

Final Funding Strategy Statement, Actuarial Valuation results and contribution rates.

4 CONSULTATION

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

5 FINANCIAL CONSIDERATIONS

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

6 COMMENTS OF BURGESS SALMON LLP

- 6.1 Burges Salmon LLP (a legal advisor appointed to the Pension Fund) comments that the Pension Committee's role is to ensure that the Pension Fund is properly operated in accordance with the Local Government Pension Scheme Regulations 2013. The triennial valuation is a statutory requirement and helps to ensure the Pension Fund is adequately funded to meet future pension benefit liabilities.

7 HUMAN RESOURCES IMPACT

- 7.1 There are no direct workforce implications arising from the recommendations within this report. If any should arise these will be managed under the Council's policies and procedures.

Approved by Gillian Bevan, Head of HR Resources and Assistant Chief Executives, on behalf of Dean Shoesmith, Chief People Officer

8 OTHER CONSIDERATIONS

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

9 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

- 9.1 This report contains 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.

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BACKGROUND DOCUMENTS:

None

Appendices

None