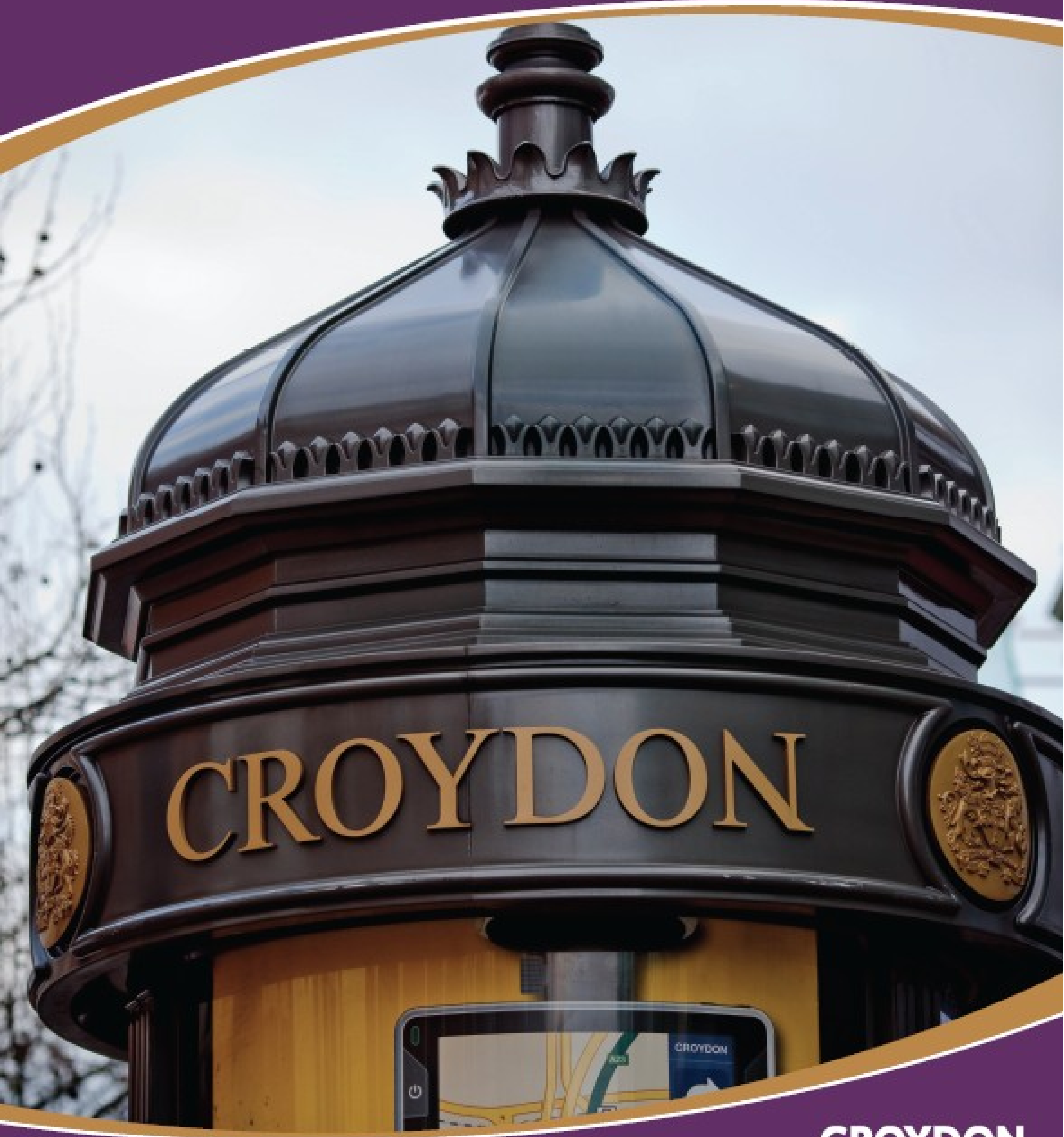
# Croydon Pension Scheme

## Annual Report 2012/2013




CROYDON
www.croydon.gov.uk

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# Foreword

In my capacity as Chairman, this is the ninth annual report covering the work of the Pensions Committee and I am grateful to those who contribute to the efficient working of the Committee. This includes the seven Councillors, reflecting the political balance of the Council, pensioner and staff-side representatives, who are supported by co-opted non-voting members, external professional advisors and Council Officers. Our job is to provide guidance and direction to the Council's Pension Fund.

Sadly, this year saw the passing of the Hon. Alderman Derek Millard. Representing Purley between 1986 and 2010, Derek was Mayor of Croydon in 2007-8. His professional career was spent as an actuary and stock-broker; experience which he brought to bear as the Chairman, then member of and latterly advisor to the Pension Committee. He will be greatly missed.

The past twelve months have been positive for global markets and although governments have a considerable way to go in paying off national debt, the cost of that debt is exceptionally low. The world's central banks continue to play a crucial part in preventing total economic collapse by providing the liquidity needed to prevent another credit crunch and the monetary expansion required to stave off deflation. Although central banks' policies have been successful in averting off further crises, they have had limited success in stimulating economic growth. However, the broader economic outlook continues to improve.

Against this backdrop the assets of the Croydon scheme have increased in value driven mainly by a strong performance in developed equity markets. In the UK, FTSE 100 companies had their earnings expectations lifted due to the weakness of sterling. In Europe equities made strong gains and the majority of large European companies are in good financial shape with strong balance sheets. North American equities enjoyed good gains primarily lead by growth in the housing market which bodes well for job creation and boosting consumer confidence. Equity growth was further supported by the positive impact of growing energy independence, through shale gas and oil; something that is expected to continue into the longer term.

This slow economic growth and record low interest rates have driven the prices of fixed interest investment up. Yields on most government and corporate bonds are now not attractive but there are reasons to believe they will stay low for the time being. The pace of economic growth in developed countries is likely to remain subdued for several more years and this should keep expectations for future interest rates low.

Public service pensions have continued to make headlines and news bulletins throughout the year and will do so for the foreseeable future. The Committee continues actively to support initiatives to keep members informed including open days, written communications and the pensions website. Auto enrolment came into effect on 1st January 2013 and has resulted in an increased membership base. The new career average scheme is to come into effect by the 1st of April 2014 and the administration team are working hard to ensure they are equipped to implement the changes as soon as the final scheme details are announced. The drive for efficiency savings has never been stronger and Croydon continue to play an active role in joint working initiatives including the national framework and exploring options to decrease investment and custodian fees.

Dudley Mead

Councillor Dudley Mead
Chairman of the Pension Committee

# 1. Management & Advisers

## Pension Committee:

The Council is the administrating authority for the Pension Fund and discharges it's duties in respect of maintaining the Pension Fund in the form of the Pensions Committee. The Committee is responsible for investments, administration and strategic management of the Council Pension Fund, including but not limited to:

- Setting the long term objectives and strategy for the Fund
- Setting the investment strategy
- Appointment of investment managers, advisers and custodians
- Reviewing investment managers' performance
- Approving the actuarial valuation
- Approving pension fund publications including but not limited to the Statement of Investment Principles, the Funding Strategy Statement, the Governance Compliance and the Communication Policy Statement.

The Committee includes seven voting Members of the Council and five non-voting members: two pensioner representatives, two co-opted members and one employee representative. The members of Pensions Committee during the 2012/2013 Municipal year are listed below:

## Councillors:

| | |
|---|---|
| Chairman: | Dudley Mead |
| Vice-Chairman: | Yvette Hopley |
| Members: | Jan Buttinger |
| | Maggie Mansell |
| | Simon Hall |
| | Raj Rajendran |
| | Donald Speakman |
| Reserve Members: | Carole Bonner, Pat Clouder, Adam Kellett, Badsha Quadir, Pat Ryan, Avril Slipper, Sue Winborn |

## Non-voting members:

| | |
|---|---|
| Pensioners' Representatives: | Gilli Driver |
| | Peter Howard |
| Co-opted Members: | Mike Brakes |
| | Derek Millard Sadly, Derek Millard passed away part way through the year. |
| Staff Representative: | Isa Makumbi |

The Committee is supported by officers and independent external advisers.

## Administering Authority:

The London Borough of Croydon Pension Fund
Resources & Customer Services
Pensions Section
8th Floor
Taberner House
Park Lane
Croydon, CR9 1JL

Richard Simpson
Director of Finance & Deputy S151 Officer

**Investment Advisors:**
Ian Bailey - AON Hewitt
Valentine Furniss – Independent Adviser

**Actuary:**
Hymans Robertson
20 Waterloo Street
Lanarkshire
Glasgow G2 6DB

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

**Auditor:**
Grant Thornton UK LLP (External), Deloitte (Internal)

**Bank:**
Royal Bank of Scotland

**Legal Advisors:**
Wragg & Co.
3 Waterhouse Square
142 Holborn
London EC1N 2SW

Pinsent Masons LLP
30 Crown Place
Earl Street
London EC2A 4ES

**AVC Provider:**
Prudential
Laurence Pountney Hill
London EC4R 0HH

**National Association of Pension Funds (NAPF):**
Membership number : 3547

# 2. Administrators to the Fund

## 2.1. Fund Managers:

BlueCrest
BlueCrest Capital Management LLP

DB Advisors
Deutsche Bank Group

equitix
Infrastructure Equity Partnerships

Fauchier Partners

Fidelity International

Franklin Templeton Investments

Henderson Global Investors

Knightsbridge

Nordea

Pantheon Private Equity

Standard Life Investments

Sarasin & Partners

Schroders

Wellington Management

## 2.2. Administrators to the Fund:

Aon Hewitt

The Bank of New York Mellon

Hymans Robertson

Inalytics

PIRC

WM Performance Services
A State Street Business

# 3. Publications

The Pension Fund publishes a number of documents on the Council's website www.croydonpensionscheme.org.  Below is a brief outline of a number of those publications.

### Funding Strategy Statement

The funding strategy statement is prepared in collaboration with the Fund's Actuary and consultation with the Fund's employers and investment advisors. The statement includes:

- the strategy the Pension Fund employs to ensure its liabilities are met whilst maintaining a consistent and affordable employer contribution rate
- details of how the Fund is seeking to achieve its investment objectives and the levels of associated risks
- the responsibilities for key parties including employers, employees and the actuary.

### Governance Compliance Statement

The administering authority of a Local Government Pension Scheme (LGPS) 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 details:

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

### Statement of Investment Principles (SIP)

Administrating Authorities are required to prepare, maintain and publish a written statement of the principles governing their decisions about investments. The statement includes details of:

- the investment objective and style
- the Fund's investment managers and the terms of their mandates
- the Fund's compliance with the Myners' Investment Principles.

### Communication Policy

Each administering authority is required to publish a statement setting out the Fund's communication policy. The statement sets out the Council's policy for:

- communicating with interested parties including members and other employers within the scheme
- the method and frequency of communications used such as newsletters, annual benefit statements, open days and the pension's website.

### Training Log

Each administering authority is required to log each Pension Committee Members training.

# 4. Membership

## 4.1. Organisations

### 4.1.1. Admitted:

Apetito
BRIT School
Cabrini Children's Society
Churchill Services
Courier Cars Limited
Creative Environmental Network
Croydon Citizens Advice Bureau
Croydon Community Mediation
Croydon Voluntary Action
Eden Foodservice
Eldon Housing Association
EnterpriseMouchel Ltd
Fairfield (Croydon) Ltd
Fusion
Impact Group Ltd
Interserve
Kier
London Hire Services Ltd
Mayday Travel Ltd
Olympic (South) Ltd
Pegasus Academy
Quest Academy
Ruskin Private Hire
Skanska Construction
Sodexo Ltd
Sutton Jigsaw Transport Ltd
Veolia Environmental Services (UK) Ltd
Vinci Facilities
Wallington Cars and Couriers

### 4.1.2. Scheduled:

Aerodrome Primary Academy
ARK Oval Primary Academy
Coulsdon College
Croydon College
David Livingstone Academy
Gonville Academy
Harris Academy Purley
Harris City Academy Crystal Palace
Harris Academy South Norwood
John Ruskin College
Norbury Manor B&E Coll. for Girls
Oasis Academy Byron
Oasis Academy Coulsdon
Oasis Academy Shirley Park
Pegasus Academy
Quest Academy
Riddlesdown Collegaite
Robert Fitzroy
Shirley High Sch Performing Arts College
St Cyprian's Academy
St James The Great Academy
St Josephs College Academy
St Thomas Becket RC Academy
West Thornton Primary Academy
Woodcote High Academy

## 4.2. Resources for Members

### 4.2.1. National Local Government Pension Scheme Web Site

**The web site address is www.lgps.org.uk**

The national Local Government Pension Scheme web site 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, which includes:
*All About Your Pension Scheme:* A new employees' guide to the Scheme
*All About Your Preserved Benefits:* A guide to benefits provided if you leave before retirement age
*All About Your Retirement Benefits:* A guide to retirement benefits *Increasing Your Benefits:* How to purchase additional periods of membership
*A "FAQ" section:* Frequently asked questions.

### 4.2.2. 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 "The Pension Connection" helpline on 0845 607 0077.

Any members' additional voluntary contributions (AVC's) 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 therefore not required to be included in the Pension Fund Accounts in accordance with the Statement of Recommended Practice - Financial Reports of Pension Schemes (issued in 2002). The Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVC's.

***AVCs are an opportunity for all employees to pay additional contributions into an external scheme which will enhance income on retirement***

### 4.2.3. Further Information

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**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.

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**The Pensions Advisory Service (TPAS)**
11 Belgrave Road
London SW1V 1RB
Telephone Number: 0845 601 2923
Website: www.opas.org.uk

TPAS is available to assist members of pension schemes with any difficulties that they are unable to resolve with their scheme administrators.

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**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.

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**The Pension Tracing Service**
The Pension Service
Tyneview Park, Whitley Road
Newcastle-upon-Tyne NE98 1BA
Telephone Number: 0845 600 2537
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.

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Queries relating to the Pension Fund investments can be made to:

Croydon Pensions Team
8 floor, Northside, Taberner House
Park Lane, Croydon CR9 1JL
Tel: 0208 760 5768 ext: 62892
E-mail: pensions@croydon.gov.uk

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## 4.3. Members Self Service

Scheme members can view their pension details by logging on to our internet member self service. This service has recently been upgraded and provides various member data displays, 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 and request a password.

# 5. Main Features of the Scheme

## 5.1. 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 other statutory pension schemes. Employees of designating bodies or admitted bodies can only join if covered by the relevant agreement.

## 5.2. Benefits on death in service

A lump sum is payable on death in service, normally equivalent to three years 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 dependent children.

## 5.3. Benefits on retirement

For membership from April 2008 onwards, pension benefits are calculated as 1/60th of final pay for each year of membership. Benefits for earlier membership consist of a pension calculated as 1/80th of final pay for each year of membership 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 membership or pension. Members can normally exchange some pension to provide a bigger lump sum.

## 5.4. 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 dependent children.

## 5.5. Extra benefits

The scheme offers several ways for members to improve benefits:

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

## 5.6. Employee contributions

The rate of contribution payable by members varies according to pay level, ranging from 5.5% of pay to 7.5% of pay. The pay ranges to which each contribution rate applies are adjusted each April in line with changes in the cost of living.

The table below sets out the contribution bands which will be effective from 1 April 2012. These are based on the pay bands for 2011/12 as increased by the September 2011 CPI figure of 5.2%, with the result rounded down to the nearest £100. Where a member had an annual incremental increase, this may have resulted in them paying a higher rate of contributions from April 2012.

| Band | Salary Range | Contribution Rate |
|---|---|---|
| 1 | £0 to £13,500 | 5.5% |
| 2 | Over £13,501 to £15,800 | 5.8% |
| 3 | Over £15,801 to £20,400 | 5.9% |
| 4 | Over £20,401 to £34,400 | 6.5% |
| 5 | Over £34,401 to £45,500 | 6.8% |
| 6 | Over £45,501 to £85,300 | 7.2% |
| 7 | Over £85,300+ | 7.5% |

## 5.7. Age of retirement

Normal retirement age is age 65, but:

- Pension benefits are payable at any age if awarded due to ill health
- Members may retire with full 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, but requests made before age 60 need employer consent. Actuarial reductions may apply where benefits come into payment before age 65
- 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 age 65 but only up to age 75.

## 5.8. 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 2012 was based on the increase in CPI during the 12 months preceding September 2011 and was set at 5.2%.

## 5.9. Pension Fund Fraud / National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

NFI 2010/11 helped trace almost £229 million in fraud, error and overpayments in England. Since the initiative's start in 1996, the programme has helped identify £939 million in fraud or error and the initiative has attracted international recognition.

The use of data for NFI purposes continues to be controlled to ensure compliance with data protection and human rights legislation. A revised Code of data matching practice was published and laid before Parliament on 21 July 2008 and replaces the previous Code published by the Commission in 2006.

A Scheme Summary of the LGPS is available on our website.

# 6. Changes to the Local Government Pension Scheme

**Local Government Pension Scheme (Miscellaneous) Regulations 2012**

The Local Government Pension Scheme (Miscellaneous) Regulations 2012 (SI 2012/1989) ('Miscellaneous Regulations') came into force on 1 October 2012. All documents relating to these regulations can be found on DCLG's website, please see below. Many of the changes introduced are necessary to ensure the LGPS fits with the requirements of automatic enrolment as outlined in the Pensions Act 2008 (as amended).
https://www.gov.uk/government/organisations/department-for-communities-and-local-government

## 6.1. The New LGPS 2014

On 31 May 2012 the Local Government Association (LGA) and trades unions representing local government workers announced their proposal for the reform of the Local Government Pension Scheme (LGPS) in England and Wales. The proposals combine long and short-term reform with early introduction of the new scheme from 1 April 2014.

The New LGPS 2014 project was set up in December 2011 following acceptance by the Government of a set of principles submitted by the LGA, UNISON and GMB on how to take forward reform of the LGPS. This project is being carried out in line with these principles and covers new scheme design as well as scheme management and governance. The aim is to have regulations in place in time for the England and Wales actuarial valuations in April 2013 to take account of the proposed scheme from 1 April 2014.

The main elements of the proposed LGPS 2014 scheme are as follows:

- Career Average Revalued Earnings (CARE)
- 1/49th accrual rate with revaluation based on Consumer Prices Index (CPI)
- Retirement linked to State Pension Age (SPA)
- Contributions based on actual pay (including part time employees) with the average employee contribution remaining at 6.5%. No change to the expected overall net yield from employee contributions
- Retention of banded employee contributions, but with an extension to the number of bands with little or no increase in the employee rate at the lower bands but more significant increases at higher pay bands, even after allowing for tax relief

- ’50/50’ scheme option enabling members to pay half contributions for half the pension, with most other benefits remaining as they are currently
- Benefits for service prior to 1st April 2014 are protected, including remaining ‘Rule of 85’ protection. Protected past service continues to be based on final salary and current retirement age
- Outsourced scheme members will be able to stay in the scheme on first and subsequent transfers
- Vesting period extended from 3 months back to two years.

All other terms remain as in the current scheme including death in service benefits, ill-health provision and the lump sum trade-off, albeit it is not yet clear how ill-health enhancement will work for those in the 50/50 scheme.

## 6.2. Consultation

On the 21 December 2012 the Department for Communities and Local Government (DCLG) published its consultation document covering the draft regulations on membership, contributions and benefits for the LGPS from April 2014. The 7 week consultation includes 55 regulations covering core elements of the new scheme. The consultation document can be viewed on the LGE website. Views were sought from all interested parties on these draft regulations by 8 February 2013.

On 28 March the DCLG published a further consultation document covering the draft regulations on membership, contributions and benefits for the LGPS from April 2014. In addition a consultation commenced on the transitional regulations for LGPS 2014 as well as miscellaneous amendment regulations for the current scheme regulations. The consultation closing date for the LGPS regulations was 3 May 2013 and for the transitional regulations and miscellaneous amendment regulations was the 24 May 2013.

## 6.3. Auto Enrolment

The government first announced its intention to introduce auto enrolment for staff who are not in their employers occupational pension scheme in 2009. Legislation has now been issued requiring all employers to enrol their workers into a qualifying workplace scheme if they are not already in one.  At present, many workers fail to take up valuable pension benefits because they opt out of the scheme.  Automatic enrolment is meant to overcome this.

Employers have to automatically enrol workers who:

- Are not already in a qualifying workplace pension scheme;
- Are at least 22 years old;
- Are below state pension age;
- Earn more than £8,105 a year; and
- Work or ordinarily work in the UK (under their contract).

The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 are effective from 1st October 2012.

Employees of Croydon Council were auto enrolled on 1st January 2013, resulting in 600 new members as at 31st March 2013.

## 6.3. New 'single tier' state pension from 2017

Details of the Coalition Government's plans to simplify the state pension system with the creation of the 'Single Tier' pension, were published in a White Paper on 14th January 2013 as part of the Mid-Term Review.

The reform will create a simple flat rate pension set above the means test (currently £142.70) and based on 35 years of National Insurance contributions. It will particularly benefit women, low earners and the self employed, who under existing rules find it difficult to earn a full state pension.

By replacing today's complex system of add-ons and means-testing the Single Tier will provide certainty to people about what they will get from the state and provide a better platform for them to save for their retirement.

The Government intends to implement the single-tier pension in April 2017 at the earliest.

Key benefits of the reforms:

- 750,000 women who reach pension age in the decade after Single Tier is introduced will on average get an extra £9 a week
- Under the present system, 4.2 million self-employed people are prevented from getting a full state pension. The Single Tier will now properly recognise their NI contributions

- By the 2040s, over 80 per cent of people reaching State Pension age will receive the full weekly amount of single-tier pension
- A significant reduction in means testing. The proportion of people reaching State Pension age after the introduction of single tier who qualify for Pension Credit will be halved compared to the current system, and remain under 10 per cent up to 2060.

Key features of the Single Tier pension:

- A single, flat rate state pension payment set above the basic level of the means test, which is currently £142.70 – compared with a current basic state pension of £107 per week and highly variable and unpredictable levels of additional state pension. The White Paper assumes £144 a week start rate, which is up-rated annually by the 'triple lock'
- An end to different Basic and Additional State Pensions, and contracting out of defined benefit pension schemes. Savings credit abolished
- 35 qualifying years to receive the full amount with over 80% of new pensioners achieving this by the 2040s
- A minimum number of qualifying years (up to 10 years) to get any single tier
- Self employed people brought fully into the state pension for the first time All state pension rights accrued under the old system will be recognised, so nobody will lose out on any pension they have earned.

These changes will provide people with a platform to save for their retirement.

# 7. Management of the Assets

The distribution of the Fund's assets among investment managers at 31st March 2013 is outlined below.

| Investment Manager | Investment Mandate | % of Fund |
|---|---|---|
| **Fidelity** | Global Equities including pooled emerging markets (Segregated) | 16.34% |
| **Franklin Templeton** | Global Equities (Segregated) | 12.06% |
| **Global Thematic Partners** | Global Thematic Equities (Segregated) | 11.53% |
| **Sarasin** | Global Thematic Equity (Pooled) | 12.10% |
| **Standard Life** | Corporate Bond Fund and Absolute Return Global Fund (Pooled) | 17.94% |
| **Wellington** | Sterling Core Bond (Pooled) | 11.18% |
| **Pantheon** | Private Equity Invest in unquoted companies (Pooled FofF) (US Dollar & Euro) | 2.41% |
| **Equitix** | Private Equity – PFI Projects (Pooled) | 3.18% |
| **Knightsbridge** | Private Equity – Venture Capital (Pooled FofF) (US Dollar) | 0.78% |
| **Bluecrest** | Fund of Hedge Funds (Pooled FofF) | 1.89% |
| **Henderson Global** | European Property Funds | 1.59% |
| **Schroder** | UK Property Funds | 3.73% |
| **All Fund Managers – Cash Management** | Maximising short term returns prior to the investment of funds | 1.11% |
| **LB of Croydon Cash Management** | Cash LIBID 7 day notice deposit account | 1.06% |
| **Goldman Sachs Account** | AAA Rated Money Market Fund | 0.99% |
| **Deposit at Lloyds Bank** | Fixed Deposit | 2.13% |
| **Total** | | 100.00% |

The Investment Strategy was reviewed ahead of the 2013 Triennial Valuation. This review was carried out by the officers under the guidance of the professional investment advisor, Aon Hewitt. During the year 2012/2013 the Pension Committee discussed and agreed that the investment allocation strategy should be revised as shown in the table below. The allocation to Bonds was decreased as a result of the poor outlook for this asset class. The property allocation was increased in order to provide more diversified returns from equities. An allocation to infrastructure has also been included.

## Asset Allocation

Following consultation with the Fund's investment advisors, a revised target asset allocation was implemented. The target asset allocation is outlined in the table below.

| Asset Class | Investment |
|---|---|
| **Equities** | 50% +/- 3 |
| **Bonds** | 25% +/- 3 |
| **Property** | 10% +/- 3 |
| **Private Equity** | 5% |
| **Infrastructure** | 5% |
| **Fund of Hedge Funds** | 4% |
| **Cash / Other** | 1% |
| **Total** | 100% |

The strategy will be implemented in the 2013/2014 financial year through investments in a range of segregated accounts and pooled funds. Opportunities in property, infrastructure and private equity may determine the pace of the changes.

## 7.1. Fees

Fees for the investment managers are related to the assets under management. In the case of BlueCrest and Pantheon Ventures, there is also a performance-related element to the fee which is again based on investment performance hurdles.

## 7.2. Monitoring the Investment Managers

Performance of the investment managers is measured by the World Markets (WM) Company. WM's report is included within the report to the quarterly Pension Committee meeting, to which investment managers are invited, the purpose of which is to review the performance of the investment managers. To assist the Fund in fulfilling its responsibility for monitoring the investment managers the Fund retains the services of an independent investment adviser. Additionally, the Council's officers and advisers meet the investment managers regularly to review their actions together with the reasons for their investment performance.

## 7.3. Realisation of Investments

In general, the Fund's investment managers have discretion as to the realisations of assets in their portfolios. Investment managers' also have discretion as to stock and sector selection of assets under management in accordance with the investment mandate. The Fund's investment managers have responsibility for generating cash for investment in new assets and shortfalls in revenue expenditure of the Fund as may be required for time to time. The Pension Committee decides, with the advice from its investment advisers, on how and when investments should be realised for cash.

## 7.4. Pension Committee Arrangements

As an administering pension authority, the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pension Committee. Its terms of reference are to deal with the management of the Fund, including matters relating to employee liability.

The Pension Committee is made up of seven voting Members of the Council, two non-voting pensioner representatives and a non-voting employee representative. The Committee is also able to co-opt non-voting specialist representatives as is required. In addition, officers and the Fund's external advisers support the meetings. The Pension Committee is scheduled to meet on at least four occasions during a Municipal Year and formal minutes are taken and acted on accordingly.

Further ad-hoc meetings also take place to discuss various matters as they arise, in particular regarding asset allocation.

## 7.5. Custody

For the additional security of the invested assets, the Fund employs The Bank of New York Mellon as an independent custodian for its segregated global equity holdings. The Bank of New York Mellon also act as fund accountants for all the Pension Fund investments, with the exception of internally managed cash.

# 8. Investment Report

## 8.1. General

During 2012/13, for local authority pension funds, there was an average increase in value of 2.6%. This was in line with CPI inflation and average weekly earnings of 2.8% and 0.27% respectively.

The financial year ending 31 March 2013 saw a strong increase for equities in all the major markets with returns of 17% in the UK, 18% in Europe and 19.3% in North America, with Pacific returning 18.1; both Europe and Pacific recovering from negative positions the year before. UK bonds (gilts) fell significantly below equities with a return of 5.2%, while overseas bonds decreased slightly. Property has also decreased to 2.5%.

## 8.2. Strategy

The Pension Committee reviews its strategy for allocating the Pension Fund assets amongst various investment categories to coincide with the Actuarial Triennial Valuation. The revised asset allocation strategy is intended to generate an investment return on the Fund in line with the requirements of the Actuary's recovery plan as set out in the Actuarial Triennial Valuation report. The most recent triennial valuation was calculated as at the $31^{st}$ of March 2010.

The Pension Committee discussed and agreed that in order to achieve a level of return that is aligned with the Actuary's recovery plan, the investment allocation strategy should be revised. This current strategy was agreed during the first quarter of 2013. The asset allocation of the Fund will, however, be kept under constant review and may be changed from time to time.

This strategy is set out in detail within the Statement of Investment Principles, with any major changes reflected in an updated version, which is published on the Council's website.

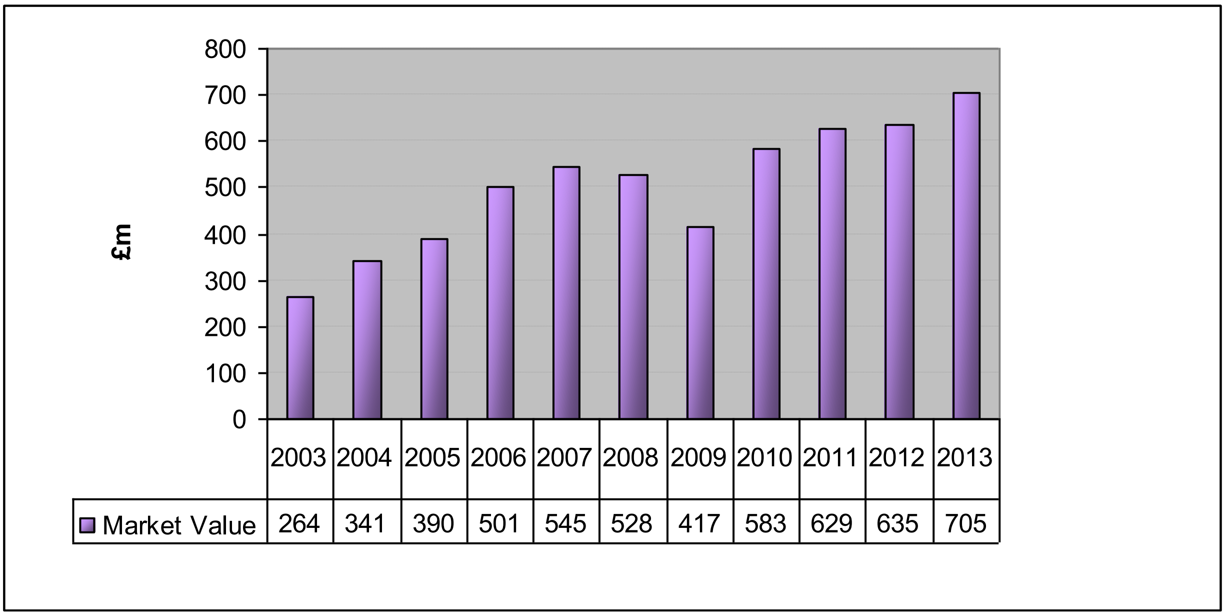
## 8.3. Performance

The Fund's performance is compared with the Council's own customised benchmarks and to the average return from 85 local authority pension funds, as measured by WM Company. During the 2012/13 financial year the Fund's return of 10.7% underperformed its customised benchmark of 11.6% by 0.9%. The Fund also underperformed the average return for local authorities of 3.1%.

As at the 2010 Actuarial Valuation the Fund's funding level was 66%, a slight decrease in the 68% funding level as calculated at the 2007 Actuarial Valuation. The 2013 valuation will be due for publication early 2014.

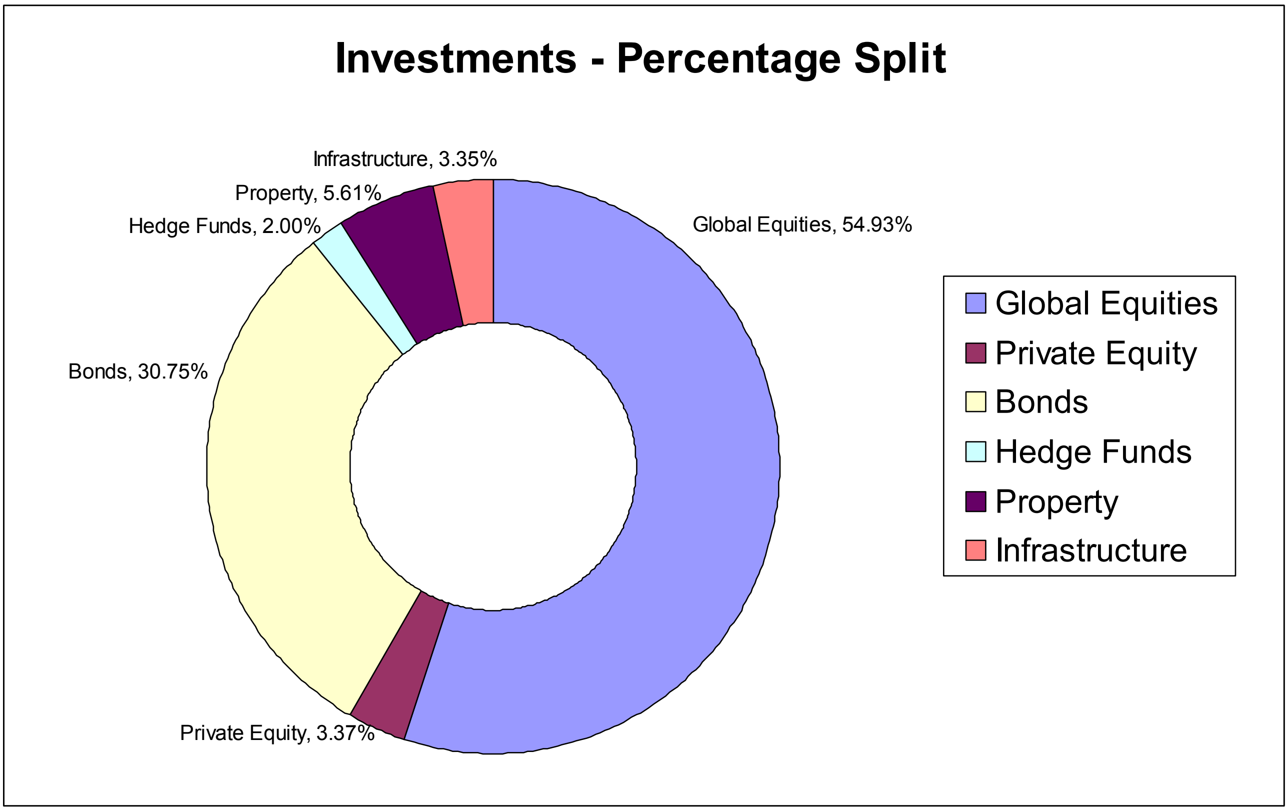
## 8.4. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2013 were £705 million compared with £264 million at 31 March 2003. The chart below shows the growth of the Fund's assets over the past ten years.




| Net Assets | 2012/13 £m | % |
|---|---|---|
| **Market Value of investments** | 668.1 | 94.72 |
| **Other Balances held by Fund Managers** | 0.0 | 0.00 |
| **Cash held by Fund managers** | 7.8 | 1.11 |
| **LBC Fund Net Current Assets** | 29.4 | 4.17 |
| **Total at the end of the year** | **705.3** | **100.0** |

## 8.5. Distribution of Assets by Market Value




| Investments | 2012/13 £000s | % of Investments |
|---|---|---|
| **Global Equities** | 367 | 54.93 |
| **Private Equity** | 22.5 | 3.37 |
| **Bonds** | 205.4 | 30.75 |
| **Hedge Funds** | 13.3 | 2.0 |
| **Property** **(of which UK 3.94% European 1.67%)** | 37.4 | 5.61 |
| **Infrastructure** | 22.4 | 3.35 |
| **Total at the end of the year** | 668.0 | 100.0 |

## 8.6. Statistics 2012/2013

| Returns | Croydon Fund | Average Local Authority |
|---|---|---|
| **1 year (% per year)** | 10.7 | 13.8 |
| **3 years (% per year)** | 6.3 | 8.1 |
| **5 years (% per year)** | 5.3 | 6.5 |
| **10 years (% per year)** | n/a | 9.4 |

| Pension Fund Investment Distribution: | Croydon Fund | Average Local Authority |
|---|---|---|
| **Global Equities** | 54.93 | 62.99 |
| **Private Equity** | 3.37 | 4.14 |
| **Bonds** | 30.75 | 17.57 |
| **Hedge Funds** | 2.0 | 2.28 |
| **Property** | 5.61 | 6.84 |
| **Infrastructure** | 3.35 | 0.68 |

## 8.7. Top 25 Global Holdings

| | Market Value at 31 March 2013 | % of Total Global Equity Investment |
|---|---|---|
| APPLE INC | 5,254,557 | 1.60% |
| CSL | 3,704,388 | 1.13% |
| UMICORE NPV | 3,256,901 | 0.99% |
| NOVO-NORDISK AS | 2,949,312 | 0.90% |
| US BANCORP | 2,891,139 | 0.88% |
| VISA INC | 2,839,507 | 0.86% |
| SCHLUMBERGER LTD | 2,818,846 | 0.86% |
| INFORMATICA CORP | 2,723,303 | 0.83% |
| MERCADOLIBRE INC | 2,719,222 | 0.83% |
| DANAHER CORP | 2,680,908 | 0.82% |
| INVESCO LTD | 2,560,496 | 0.78% |
| SAIPEM | 2,519,489 | 0.77% |
| LABORATORY CORP OF AMERICA | 2,513,762 | 0.76% |
| NOBLE GROUP | 2,486,430 | 0.76% |
| AMAZON.COM INC | 2,456,189 | 0.75% |
| UNITED OVERSEAS BANK | 2,441,092 | 0.74% |
| CSX CORP | 2,434,258 | 0.74% |
| PFIZER INC | 2,408,320 | 0.73% |
| HARTFORD FINANCIAL | 2,407,059 | 0.73% |
| ARM HOLDINGS | 2,393,300 | 0.73% |
| DOW CHEMICAL CO | 2,387,695 | 0.73% |
| AMERICAN TOWER CORP | 2,380,566 | 0.72% |
| PRAXAIR INC | 2,380,204 | 0.72% |
| SGS SA | 2,379,977 | 0.72% |
| WORLEYPARSONS LTD | 2,373,994 | 0.72% |
| | 68,360,914 | 20.8% |

# 9. Pension Fund Annual Accounts 2012/13

## CROYDON'S ROLE AS A PENSION ADMINISTERING AUTHORITY

The Council as a Local Authority and a pension administering Authority is acting in two separate roles. As a Local Authority it is accountable to the residents of the London Borough of Croydon for its stewardship of public funds. As a pension administering Authority it is accountable both to its 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 in an appendix to clearly demonstrate the distinction.

**FUND'S OPERATIONS AND MEMBERSHIP**

The London Borough of Croydon Pension Fund (the Fund) operates a defined benefit scheme whose purpose is to provide pensions to all of the Council's employees, with the exception of teaching staff, and to the employees of admitted and scheduled bodies who are members of the Fund.

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Superannuation Act 1972. The rules of the scheme are laid down in two separate sets of regulations; the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008, both of which came into force on 1 April 2008, and provide the statutory basis within which the Fund can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Below is a list of the admitted and scheduled bodies contributing to the Fund:

Admitted:
Apetito, BRIT School, Cabrini Children's Society, Churchill Services, Courier Cars, Creative Environmental Networks, Croydon Citizen's Advice Bureau, Croydon Community Mediation, Croydon Voluntary Action, Eden Foodservice, Eldon Housing Association, EnterpriseMouchel, Fairfield, Fusion, Impact Group, Interserve, Kier, London Hire, Mayday Travel, Olympic (South) Ltd., Ruskin Private Hire, Skanska Construction, Veolia, Vinci Facilities, Wallington Cars and Courier Cars Ltd.

Scheduled:
Aerodrome Primary Academy, ARK Oval Primary Academy, Coulsdon College, Croydon College, David Livingstone Academy, Gonville Academy, Harris Academy (Purley), Harris Academy (South Norwood), Harris City Academy (Crystal Palace), John Ruskin College, Norbury Manor Business and Enterprise College for Girls, Oasis Academy Coulsdon, Oasis Academy Shirley Park, Oasis Byron Academy, Pegasus Academy, Quest Academy, the Robert Fitzroy Academy, Shirley High School Performing Arts College, St Cyprians Academy, St James the Great Academy, St Josephs College Academy, St Thomas Becket RC Academy, West Thornton Primary Academy, Woodcote High Academy.

**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 seven voting Members of the Council, two non-voting pensioner representatives, two co-opted non-voting members and a non-voting employee representative. In addition, the Committee is supported by officers and external advisors.

## STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND

### 1. GENERAL PRINCIPLES

The financial statements have been prepared in accordance with the provisions of Sections 6.5.1 to 6.5.5 of the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### 2. STATEMENT OF INVESTMENT PRINCIPLES

This is published on the Croydon Pension Scheme web page http://www.croydon.gov.uk/democracy/budgets/pensions/policies.

### 3. BASIS OF PREPARATION

**Accruals**
The financial statements, apart from transfer values received and paid (see below), have been prepared on an accruals basis. The accruals basis of accounting requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced, and not in the period in which any cash is received or paid.

**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.

**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. 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. 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 by our fund managers 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.

**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.

**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.

**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.

## STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND

**Financial assets**

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the fund. The values of investments as shown in the Net Assets Statement have been determined in accordance with the valuation techniques described in Note 2.

Cash comprises cash in hand and demand 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.

**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 under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 24).

**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 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 18).

### 4. EARLY RETIREMENT COSTS DUE TO REDUNDANCY

Employees, who are members of the Local Government Pension Scheme, aged 55 or over and take early retirement due to redundancy are entitled, under the regulations, to receive their pension from the date their employment ceases, based on the number of years of their service without any actuarial reduction. This causes a 'strain' on the Pension Fund that is measured as a capitalised cost, and recovered from the London Borough of Croydon in the year in which it arises.

## PENSION FUND ACCOUNTS

### FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2013

| CONTRIBUTIONS AND BENEFITS | Note No. | 2012/13 £000 | 2011/12 £000 |
|---|---|---|---|
| Employees' contributions: | | | |
| London Borough of Croydon | | 7,380 | 7,647 |
| Scheduled bodies | | 1,095 | 864 |
| Admitted bodies | | 468 | 487 |
| Employers' contributions: | | | |
| London Borough of Croydon | | 25,708 | 26,395 |
| Scheduled bodies | | 3,988 | 3,011 |
| Admitted bodies | | 1,474 | 1,451 |
| Transfer values received | 15 | 4,076 | 4,868 |
| Early retirement costs recovered | 8 | 1,196 | 1,569 |
| | | 45,385 | 46,292 |
| Benefits - Pensions | | 34,086 | 31,806 |
| - Lump sums | 14 | 7,349 | 13,339 |
| Payments to and on account of leavers - Refund of contributions | | 9 | 10 |
| - Transfer values paid | 15 | 2,678 | 3,209 |
| Administrative expenses | 11 | 1,093 | 1,762 |
| | | 45,215 | 50,126 |
| **Net additions / (withdrawals) from dealings with members** | | 170 | (3,834) |

| RETURNS ON INVESTMENTS | Note No. | 2012/13 £000 | 2011/12 £000 |
|---|---|---|---|
| Investment income | 13 | 6,543 | 5,795 |
| Taxes on income | | (579) | (272) |
| Net gains / (losses) on currency revaluations and underwriting commissions | | 112 | 182 |
| Change in market value of investments: | | | |
| Unrealised | 3 | 50,754 | 5,708 |
| Realised | 3 | 13,675 | 700 |
| Investment management expenses | 12 | (1,332) | (1,669) |
| **Net returns on investments** | | 69,173 | 10,444 |
| **Net increase / (decrease) in the Fund during the year** | | 69,343 | 6,610 |
| **Net assets at the start of the year** | | 635,949 | 629,339 |
| **Net assets at the end of the year** | | 705,292 | 635,949 |

# PENSION FUND ACCOUNTS - NET ASSETS STATEMENT

| NET ASSETS STATEMENT AS AT | Note No. | 31 March 2013 £000 | 31 March 2012 £000 |
|---|---|---|---|
| **Investments held by the Fund Managers:** | | | |
| Global equities - segregated funds | 2 - 5 | 264,296 | 218,327 |
| Global equities - pooled funds | 2 - 5 | 102,649 | 84,221 |
| Private equity | 2 - 5 | 22,492 | 20,221 |
| Infrastructure | 2 - 5 | 22,403 | 15,840 |
| Bonds | 2 - 5 | 205,413 | 200,408 |
| Hedge funds | 2 - 5 | 13,334 | 23,755 |
| Property | 2 - 5 | 37,480 | 36,158 |
| Global Tactical Asset Allocation | 2 - 5 | 0 | 20,867 |
| **Total Investments held by the Fund Managers** | | 668,067 | 619,797 |
| **Other Balances held by the Fund Managers** | | | |
| Outstanding dividends and tax reclaimable | 9 | 713 | 655 |
| Outstanding trades for securities sold | 9 | 2,570 | 5,973 |
| Outstanding trades for securities purchased | 10 | (3,282) | (2,394) |
| **Total Other Balances held by the Fund Managers** | | 1 | 4,234 |
| Cash held by the Fund Managers | | 7,830 | 9,869 |
| **Total Assets held by the Fund Managers** | | 675,898 | 633,900 |
| **Net Current Assets:** | | | |
| Debtors | 9 | 1,544 | 886 |
| Cash held by the London Borough of Croydon | | 11,752 | 169 |
| Cash on deposit with Goldman Sachs | | 6,984 | 6,814 |
| Short-term deposit at Lloyds Bank | | 15,000 | 0 |
| Creditors | 10 | (5,886) | (5,820) |
| **Net Assets at the End of the Year** | | 705,292 | 635,949 |

**Asset Classification**

In 2012/13 the Pension Committee made the decision to report Infrastructure Funds separately, and the prior year comparatives have been changed to reflect this. Previously Infrastructure funds were aggregated with Private Equity Funds. This change is also reflected in Notes 3, 4, and 5.

**Critical Judgements**

Investment Decisions:
Judgement is exercised by the fund managers in assembling the portfolio within their investment mandate. Their effectiveness in making investment decisions, in particular in the present difficult economic circumstance, determines the returns, both in income and capital growth, enjoyed by the Fund.

# NOTES TO THE PENSION FUND ACCOUNTS

## 1. ACTUARIAL POSITION

The accounts summarise the transactions and net assets of the Fund and do not take account of liabilities to pay pensions and other benefits in the future. The adequacy of the Fund's investments and contributions in relation to its overall obligations was reviewed at the triennial actuarial valuation of the Fund as at 31 March 2010 in accordance with the Local Government Pension Scheme Regulations 1997 (as amended). The employers' contribution rates for 2012/13 are as follows:

- Croydon Council (including schools' non-teaching staff) - 23.2%
- Scheduled bodies - 23.2%
- Admitted bodies - rates vary depending upon those determined by the Actuary.

During 2010/11 the Actuary completed his triennial Actuarial Valuation as at 31 March 2010 which calculated the total accrued liabilities to be £884m. The market value of the Fund's assets at the valuation date was £583m. The Fund deficit was therefore £301m producing a funding level of 66%. This compares with a deficit of £264m and a funding level of 68% as at the 31 March 2007 Actuarial Valuation. The next triennial Actuarial Valuation will be prepared as at 31 March 2013.

The 2010 Actuarial Valuation recommends that recovery of the deficit be spread over 24 years as from 1 April 2011 and that the employers' contribution rates for Croydon Council (including schools' non-teaching staff) and the scheduled bodies is an average of 23.0% over that 24 year period. The rate for admitted bodies will vary depending upon those determined by the actuary.

The actuarial assumptions used in preparing the valuation were:

| | Past Service Nominal p.a.% | Future Service Nominal p.a.% |
|---|---|---|
| Investment returns (equities) | 6.00 | 6.75 |
| Pay increases (excluding increments) | 4.75 | 4.75 |
| Pensions increases | 3.00 | 3.00 |
| Consumer Price Index (CPI) price inflation | 3.00 | 3.00 |

The employers normal contributions include deficit funding payments. The amounts that the actuary recommended should be paid are detailed in Appendix 1 to the Actuarial Report, the 'Schedule to the Rates and Adjustment Certificate dated 31 March 2011'. The Schedule is reproduced below, as it appears in Appendix 1, together with some explanatory notes.

Schedule to the Rates and Adjustment Certificate dated 31 March 2011:

| | 2011-14 | | Additional Payment (surplus adjustment) | | |
|---|---|---|---|---|---|
| | Individual Adjustment % of pay | Total Contribution Rate % of pay | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 |
| Other Grouped Bodies (see Table 1) | 1.0 | 14.1 | 211 | 221 | 231 |
| London Borough of Croydon and Grouped Scheduled Bodies (see Table 2 and Note 1) | 0.0 | 13.1 | 14,971 | 15,682 | 16,427 |
| BRIT School | (0.8) | 12.3 | 8 | 8 | 8 |
| Harris City Academy (Crystal Palace) | (1.7) | 11.4 | (9) | (9) | (9) |
| Fairfield | 3.9 | 17.0 | 169 | 177 | 185 |
| Veolia | 2.3 | 15.4 | 1 | 1 | 1 |
| Interserve | 3.2 | 16.3 | 19 | 20 | 21 |
| Fusion | 0.5 | 13.6 | 2 | 2 | 2 |
| Harris Academy (South Norwood) | (2.1) | 11.0 | 7 | 7 | 7 |
| Oasis Academy Coulsdon | 1.2 | 14.3 | 45 | 47 | 49 |
| Eldon Housing PFI | 1.3 | 14.4 | (1) | (1) | (1) |
| Oasis Academy Shirley Park | (0.5) | 12.6 | 86 | 90 | 94 |
| Harris Academy (Purley) | 0.2 | 13.3 | 38 | 40 | 42 |
| Olympic South Ltd | 4.9 | 18.0 | (3) | (3) | (3) |
| Apetito | 3.4 | 16.5 | (1) | (1) | (1) |
| Wallington Cars | 3.6 | 16.7 | (1) | (1) | (1) |
| Courier Cars Ltd | 3.7 | 16.8 | (1) | (1) | (1) |

# NOTES TO THE PENSION FUND ACCOUNTS

## 1. ACTUARIAL POSITION (continued)

Table 1 - Other Grouped Bodies
Age Concern (Croydon), Croydon Voluntary Action, Cabrini, Croydon Citizens Advice Bureau, Croydon Community Mediation, Croydon Environmental Networks, Croydon Welcare, Croydon Meals Agency, Croydon Youth Development Trust.

Table 2 - Grouped Scheduled Bodies
Croydon College, Coulsdon College, John Ruskin College, St Joseph's College.

Notes
1. Includes the former Grant Maintained Schools.

2. In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions shown in the table may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed by the Administering Authority.

3. The total annual contributions payable by each employer will be subject to a minimum of zero.

The employers' contribution due from the London Borough of Croydon and grouped Scheduled Bodies was £15,682,000. However, this sum was calculated as a proportion of the gross pensionable pay. As this figure fell during the current and previous period largely as a result of redundancies in response to a reduction in the level of Central Government support, the sum contributed fell short of the target figure.

The contribution by Other Grouped Bodies did not achieve £221k. This is because Age Concern (Croydon), Croydon Welcare, Croydon Meals Agency and Croydon Youth Development Trust all left the Fund in 2011/12.

All other contributions are as disclosed in the Schedule to the Rates and Adjustment Certificate.

## 2. INVESTMENTS

The Pension Committee agreed to authorise the then Executive Director of Finance and Resources, now the Interim Chief Executive, to exercise delegated powers to vary the Pension Fund's target asset allocation between UK and Overseas equities, Property, Bonds, Cash and alternative asset classes as is deemed necessary and switch investments between existing and other fund managers, as required. The dynamics which drove this process from late 2007 were the volatility in equity markets and the availability of investment opportunities tied into temporary market inefficiencies. The objective was to achieve a more consistent level of return aligned with the (then) 25 year recovery plan for the Fund but with a much lower aggregate level of risk.

During 2012/13 the Pension Committee agreed modifications to the original allocations.

| Asset Class | Benchmark | Original Weighting | Revised Weighting |
|---|---|---|---|
| UK and Overseas Listed Equities | MSCI AC World Index | 50% + / - 3% | 50% + / - 3% |
| Bonds | 18% Merrill Lynch Sterling non gilts all stocks index<br>12% Merrill Lynch Sterling Broad Market index | 30% + / - 3% | 25% + / - 3% |
| Property | IPD All Properties index | 7% + / - 3% | 10% + / - 3% |
| Funds of Hedge Funds | 3 month LIBOR plus 5% / plus 10% | 4.00% | 4.00% |
| Private Equity | MSCI AC World Index / Absolute Return of 12% | 4.00% | 5.00% |
| Infrastructure | Absolute Return of 12% | 0.00% | 5.00% |
| Global Tactical Asset Allocation | 3 month LIBOR plus 10% | 4.00% | 0.00% |
| Cash and Short Term Deposits | | 1.00% | 1.00% |
| Total | | 100.00% | 100.00% |

## NOTES TO THE PENSION FUND ACCOUNTS

### 2. INVESTMENTS (continued)

| Asset Category | Fund Managers |
|---|---|
| Equities | DB Advisors, Fidelity and Franklin Templeton (segregated funds); and Sarasin (pooled funds) |
| Private equity | Knightsbridge and Pantheon |
| Infrastructure | Equitix * |
| Bonds | Standard Life and Wellington |
| Hedge Fund of Funds | Bluecrest and Fauchier ** |
| Property | Henderson Global investors and Schroder Investment Management |
| Cash | Cash is invested by the in-house team |

* In 2012/13 the Pension Committee agreed to report Infrastructure funds separately from Private Equity Funds.
** The fund fully redeemed its investment with Fauchier on 31 March 2013.

**VALUATION OF INVESTMENTS**
The assets of the Pension Fund are included in the Net Asset Statement at their fair value. The fair value for the following asset classes is:

**Segregated Global Equities (Fidelity, Franklin Templeton, Deutsche Bank)**
Investment accounting had been undertaken by the Bank of New York Mellon (BoNYM) since 1 April 2009. The BoNYM pricing unit (Global Pricing) uses its prices to reprice the investments held by the segregated fund managers to achieve consistent pricing across the entire segregated portfolio.

The BoNYM pricing unit operates under the following pricing guidelines:

***Designation of a primary source***
All pricing vendors are external. Where available, BoNYM uses more than one vendor for securities of each asset type, class or issue. At the time of acquisition, each security is automatically assigned a primary pricing source, based on its characteristics. The price received from a primary source is used in portfolio valuation reports, unless a tolerance check, or price challenge results in the use of a price from a secondary vendor, or BoNYM are directed as to a price or source as described below:

***Use of Secondary Pricing Sources; Client / Manager Price Direction***
Missing Prices
BoNYM monitors prices supplied by vendors and may use a secondary vendor or change a primary vendor designation if a price for a particular security is not received from the primary vendor or the vendor no longer prices a particular asset type, class or issue. When a vendor does not send a price for a particular asset, it may indicate an inactive, delisted, bankrupt or suspended equity or bond for which BoNYM vendors no longer have enough data to provide a price. In such cases, Global Pricing would use a secondary vendor, if available. If a secondary vendor source is not available, BoNYM will reflect the last available price. In daily, weekly or monthly valued accounts, the client or their investment manager(s) may direct the use of an alternative price or source for any position not priced by BoNYM pricing vendors.

Tolerance Checks
Vendor-provided prices are subjected to automated tolerance checks to identify and avoid, where possible, the use of inaccurate prices. Questionable prices identified by either of the tests noted below, are reported to the vendor that provided the price. Pricing Specialists then follow-up with the vendors. If the prices are validated, the primary price source is used. If not, a secondary source price which has passed the applicable tolerance check is used (or queried with the vendor if it is out of tolerance), resulting in either the use of a secondary price, where validated, or the last reported default price, as in the case of a missing price. For monthly valued accounts, where secondary price sources are available, an automated inter source, tolerance report identifies prices with an inter-vendor pricing variance of over 2% at an asset class level.

For daily valued accounts, each security is assigned, where possible, an indicative major market index, against which daily price movements are automatically compared. Tolerance thresholds are established by asset class. Prices found to be outside of the applicable tolerance threshold are reported and queried with vendors as described above.

## NOTES TO THE PENSION FUND ACCOUNTS

### 2. INVESTMENTS (continued)

**Pooled Global Equity Funds (Sarasin, Fidelity and Franklin Templeton)**

***Sarasin***

The investment with Sarasin is in their Global Thematic Fund. The price of shares in the Fund is published daily in the Financial Times. The share price at 31 March is provided to BoNYM.

**Bonds**

***Standard Life - Trustee Investment plan***

Investments in the Trustee Investment Plan are valued each working day and a unit price is set. The pricing basis depends on the overall cash flow of the Fund, and more specifically, whether the cash flows result in the Fund having to purchase, sell or transfer stock. This gives rise to three pricing bases; offer, bid and mid. Generally, if there is a positive cash flow into the Fund the offer basis is used. This basis takes account of the cost of buying investments. However, if there is an overall outflow of funds the pricing basis may be switched to a bid basis. This means that a lower price will apply, reflecting the cost of selling the underlying investments. This is in accordance with the accounting rules for pooled investment vehicles required by the 2007 Pensions SORP.

***Wellington - Sterling Core Bond Plus***

Multiple pricing sources are used: a tolerance of 5% is accepted between prices. Outside of that range there is a manual review of each price.

**Private Equity and Infrastructure Investments**

Fund investments are carried at fair value as determined quarterly by the General Partner in its discretion. The Partnership's fund investments are generally carried at the valuations provided by the general partners or managers of such investments. The valuations provided by the general partners or managers typically reflect the fair value of the Partnership's capital account balance of each fund investment, including unrealised gains and losses, as reported in the audited financial statements of the respective fund. In reviewing these underlying valuations, the General Partner is advised by the Investment Advisor, who reviews the capital account balances and may adjust the value of each fund investment. The General Partner uses the market approach to estimate the fair value of private investments. The market approach utilises prices and other relevant information generated by market transactions, type of security, size of the position, degree of liquidity, restrictions on the disposition, latest round of financing data, current financial position and operating results, among other factors. In circumstances where fair values are not provided in respect of any of the Company’s fund investments, the Investment Advisor will seek to determine the fair value of such investments based upon information provided by the general partners or managers of such funds or from other sources. Notwithstanding the above, the variety of valuation bases adopted and quality of management data of the ultimate underlying Investee companies means that there are inherent difficulties in determining the value of these investments. Amounts realised on the sale of these investments may differ from the values reflected in these financial statements and the difference could be significant.

**Hedge Funds**

Pricing supplied by Globeopp.net. Net asset values are reconciled on a daily basis. The Fund fully redeemed its investment with Fauchier Partners on 31 March 2013.

**Property**

The Fund does not have any direct investments in property but invests indirectly through the property fund managers Henderson Global Investors and Schroder Investment Management, who invest in several property funds. The valuations presented in the accounts are those provided by the fund managers and are all at market value, bid prices are used where available.

**Cash**

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 30 days or less, that had a short maturity when acquired, are convertible to known amounts of cash with insignificant risk of a change in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**Short Term Deposits**

The Fund has a cash deposit with Lloyds Bank in a Term deposit account. The deposit is for a fixed term redeemable in August 2013.

# NOTES TO THE PENSION FUND ACCOUNTS

## 3. CHANGE IN MARKET VALUE OF INVESTMENTS

| | Balance Brought Forward £000 | Purchases £000 | Sale Proceeds £000 | Realised Gains/ (Losses) £000 | Unrealised Gains/ (Losses) £000 | Balance Carried Forward £000 |
|---|---|---|---|---|---|---|
| Global equities - segregated funds | 218,327 | 157,813 | (143,513) | 8,563 | 23,106 | 264,296 |
| Global equities - pooled funds | 84,221 | 5,891 | (2,171) | 348 | 14,360 | 102,649 |
| Private equity | 20,221 | 3,216 | (2,600) | 1,608 | 47 | 22,492 |
| Infrastructure | 15,840 | 3,491 | (985) | 0 | 4,057 | 22,403 |
| Bonds | 200,408 | 86 | (11,781) | 2,826 | 13,874 | 205,413 |
| Hedge funds | 23,755 | 0 | (11,755) | 588 | 746 | 13,334 |
| Property | 36,158 | 8,828 | (2,021) | (49) | (5,436) | 37,480 |
| Global Tactical Asset Allocation | 20,867 | 0 | (20,658) | (209) | 0 | 0 |
| | 619,797 | 179,325 | (195,484) | 13,675 | 50,754 | 668,067 |

## 4. ANALYSIS OF INVESTMENTS

Investments are valued at the close of business on 31 March 2013 in accordance with the valuation methodologies detailed in Note 2.

| | 2013 Book £000 | 2013 Market £000 | 2013 Market % | 2012 Book £000 | 2012 Market £000 | 2012 Market % |
|---|---|---|---|---|---|---|
| Global equities - segregated funds **(Quoted)** | | | | | | |
| DB Advisors | 73,877 | 81,287 | 12.2% | 62,591 | 63,902 | 10.3% |
| Fidelity | 79,555 | 99,779 | 14.9% | 74,656 | 84,790 | 13.7% |
| Franklin Templeton | 65,757 | 83,230 | 12.5% | 59,416 | 69,635 | 11.2% |
| **Total equities - segregated** | 219,189 | 264,296 | 39.6% | 196,663 | 218,327 | 35.2% |
| Global equities - pooled funds **(Quoted)** | | | | | | |
| Fidelity | 13,617 | 15,496 | 2.3% | 13,522 | 14,710 | 2.4% |
| Franklin Templeton | 1,034 | 1,823 | 0.3% | 1,207 | 1,656 | 0.3% |
| Sarasin | 63,770 | 85,330 | 12.8% | 59,620 | 67,855 | 10.9% |
| **Total equities - pooled** | 78,421 | 102,649 | 15.4% | 74,349 | 84,221 | 13.6% |
| Private Equity **(Unquoted)** | | | | | | |
| Pantheon Ventures | 12,442 | 16,974 | 2.5% | 11,459 | 16,049 | 2.6% |
| MUST 2 (Mercury Unquoted Securities Trust) | 0 | 0 | 0.0% | 0 | 9 | 0.0% |
| Knightsbridge | 5,212 | 5,518 | 0.8% | 3,962 | 4,163 | 0.7% |
| **Total private equity** | 17,654 | 22,492 | 3.3% | 15,421 | 20,221 | 3.3% |
| Infrastructure **(Unquoted)** | | | | | | |
| Equitix | 13,813 | 22,403 | 3.4% | 11,307 | 15,840 | 2.6% |
| **Total Infrastructure** | 13,813 | 22,403 | 3.4% | 11,307 | 15,840 | 2.6% |
| Bonds **(Quoted)** | | | | | | |
| DB Advisors | 0 | 0 | 0.0% | 137 | 116 | 0.0% |
| Standard Life | 108,711 | 126,549 | 18.9% | 108,662 | 116,417 | 18.8% |
| Wellington | 59,174 | 78,864 | 11.8% | 67,976 | 83,875 | 13.5% |
| **Total Bonds** | 167,885 | 205,413 | 30.7% | 176,775 | 200,408 | 32.3% |
| Hedge Fund of Funds **(Quoted)** | | | | | | |
| Bluecrest | 11,230 | 13,334 | 2.0% | 11,230 | 12,589 | 2.0% |
| Fauchier | 0 | 0 | 0.0% | 11,314 | 11,166 | 1.8% |
| **Total Hedge Fund of Funds** | 11,230 | 13,334 | 2.0% | 22,544 | 23,755 | 3.8% |
| Property **(Quoted)** | | | | | | |
| Henderson Global Investors | 17,655 | 11,189 | 1.7% | 17,655 | 15,278 | 2.5% |
| Schroder | 27,634 | 26,291 | 3.9% | 20,881 | 20,880 | 3.4% |
| **Total Property** | 45,289 | 37,480 | 5.6% | 38,536 | 36,158 | 5.9% |
| Global Tactical Asset Allocation **(Quoted)** | | | | | | |
| Nordea | 0 | 0 | 0.0% | 24,000 | 20,867 | 3.4% |
| **Total investments** | 553,481 | 668,067 | 100.0% | 559,595 | 619,797 | 100.0% |

In the prior year, Infrastructure funds were reported together with Private Equity Funds. For 2012/13, the Pension Committee have requested that these are reported separately. The prior year comparatives have been amended to reflect this.

## NOTES TO THE PENSION FUND ACCOUNTS

### 4. ANALYSIS OF INVESTMENTS (continued)

During the 2012/13 accounting period global equities recovered, especially in the last quarter, as stimulus measures introduced by central banks continued to support global growth. At the end of the account period the US region appeared stronger based on pro-growth policies and a recovery in the housing sector. Towards the end of the year Japanese equities experienced growth driven by a combination of a weaker yen and Government growth policies. The UK experienced a slow, steady growth during the final quarter as did the Eurozone although economic indicators for the region remain poor. The FTSE 100 started the year at 5,875 before experiencing a sharp drop to 5,260 in June and finished the year higher at 6,412.

### 5. GEOGRAPHICAL ANALYSIS OF INVESTMENTS

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **UK £000** | **Foreign £000** | **Total £000** | **UK £000** | **Foreign £000** | **Total £000** |
| Global equities - segregated funds **(Quoted)** | | | | | | |
| DB Advisors | 3,095 | 78,192 | 81,287 | 1,569 | 62,333 | 63,902 |
| Fidelity | 8,077 | 91,702 | 99,779 | 6,806 | 77,984 | 84,790 |
| Franklin Templeton | 6,598 | 76,632 | 83,230 | 7,537 | 62,098 | 69,635 |
| **Total equities** | 17,770 | 246,526 | 264,296 | 15,912 | 202,415 | 218,327 |
| Global equities - pooled funds **(Quoted)** | | | | | | |
| Fidelity | 71 | 15,425 | 15,496 | 112 | 14,598 | 14,710 |
| Franklin Templeton | 0 | 1,823 | 1,823 | 0 | 1,656 | 1,656 |
| Sarasin | 0 | 85,330 | 85,330 | 0 | 67,855 | 67,855 |
| **Total pooled investments** | 71 | 102,578 | 102,649 | 112 | 84,109 | 84,221 |
| Private Equity **(Unquoted)** | | | | | | |
| Pantheon Ventures | 0 | 16,974 | 16,974 | 0 | 16,049 | 16,049 |
| MUST 2 (Mercury Unquoted Securities Trust) | 0 | 0 | 0 | 9 | 0 | 9 |
| Knightsbridge | 0 | 5,518 | 5,518 | 0 | 4,163 | 4,163 |
| **Total private equity** | 0 | 22,492 | 22,492 | 9 | 20,212 | 20,221 |
| Infrastructure **(Unquoted)** | | | | | | |
| Equitix | 22,403 | 0 | 22,403 | 15,840 | 0 | 15,840 |
| **Total Infrastructure** | 22,403 | 0 | 22,403 | 15,840 | 0 | 15,840 |
| Bonds **(Quoted)** | | | | | | |
| DB Advisors | 0 | 0 | 0 | 0 | 116 | 116 |
| Standard Life | 126,549 | 0 | 126,549 | 116,417 | 0 | 116,417 |
| Wellington | 0 | 78,864 | 78,864 | 0 | 83,875 | 83,875 |
| **Total Bonds** | 126,549 | 78,864 | 205,413 | 116,417 | 83,991 | 200,408 |
| Hedge Fund of Funds **(Quoted)** | | | | | | |
| Bluecrest | 13,334 | 0 | 13,334 | 12,589 | 0 | 12,589 |
| Fauchier | 0 | 0 | 0 | 11,166 | 0 | 11,166 |
| **Total Hedge Fund of Funds** | 13,334 | 0 | 13,334 | 23,755 | 0 | 23,755 |
| Property **(Quoted)** | | | | | | |
| Henderson Global Investors | 0 | 11,189 | 11,189 | 0 | 15,278 | 15,278 |
| Schroder | 26,291 | 0 | 26,291 | 20,880 | 0 | 20,880 |
| **Total Property** | 26,291 | 11,189 | 37,480 | 20,880 | 15,278 | 36,158 |
| Global Tactical Asset Allocation **(Quoted)** | | | | | | |
| Nordea | 0 | 0 | 0 | 20,867 | 0 | 20,867 |
| **Total investments** | 206,418 | 461,649 | 668,067 | 213,792 | 406,005 | 619,797 |

In the prior year, Infrastructure funds were reported together with Private Equity Funds. For 2012/13, the Pension Committee have requested that these are reported separately. The prior year comparatives have been amended to reflect this.

## NOTES TO THE PENSION FUND ACCOUNTS

### 6. INVESTMENTS EXCEEDING 5% OF THE MARKET VALUE OF THE FUND

There was no single investment greater than 5% of the total market value of the Fund.

### 7. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES

Related party disclosures are regulated by International Accounting Standard (IAS) 24 the purpose of which is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

In broad terms parties are related for the purposes of IAS24 when one has control or significant influence over the other, or they are subject to common control or influence.

- Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

The related parties of pension schemes fall into three main categories:

- Employer related;
- Trustee related; and
- Officers and managers.

**Employer Related Parties**

The relationship between an employer and a pension scheme set up for its employees is by its nature very close. The table below details the nature of the related party relationships. It should be appreciated that no improper influence attaches to any of these relationships and at no time has the Pension Fund been inhibited from its responsibility to serve the best interests of its members.

| Transaction | Description of its Financial Effect |
|---|---|
| Cost of early retirement due to redundancy - Note 8 | As explained in Note 4 of the Statement of Accounting Principles and Policies, when employees who are members of the Local Government Pension Scheme take early retirement due to redundancy, there is a capitalised cost to the Pension Fund. This cost is re-imbursed by the employer granting early retirement. |
| Debtors - Note 9 | Amounts due in respect of employers' and employees' contributions. |
| Creditors - Note 10 | Payments are made by the Council's bank account on behalf of the Pension Fund. The Pension Fund reimburses the Council's bank account on a monthly basis. |
| Administration expenses - Note 11 | The administration of the Pension Fund is undertaken by officers of the Council. The cost of their time is recharged to the Pension Fund as permitted by Paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008. |
| Investment management expenses - Note 12 | Council officers also provide investment monitoring services to the Pension Fund. It is also permitted under Paragraph 42 to recharge these costs to the Pension Fund. |

The amounts involved in each of the above relationships are stated in their separate disclosure notes.

# NOTES TO THE PENSION FUND ACCOUNTS

## 7. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES (continued)

**Trustee Related Parties**

Trustee related parties include:

a. trustees and their close families
b. key management (that is the directors and any senior officer) of a corporate trustee and their close families
c. entities controlled by, and associates and joint ventures of, the scheme itself
d. companies and businesses controlled by the trustees or their close families
e. companies and businesses controlled by the key management of a corporate trustee, or their close families.

There were no transactions between any of the categories of trustees listed above and the Pension Fund.

**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.

There were no transactions between officers and managers of the Pension Fund and the Pension Fund.

The only financial relationship that either trustees or officers and managers have with the Fund is as prospective or actual pensioners for those who are scheme members.

## 8. COST OF EARLY RETIREMENT DUE TO REDUNDANCY

The following note only applies to the London Borough of Croydon:

During the financial year 2012/13 the capitalised cost of early retirements (due to redundancy) requiring reimbursement to the Pension Fund was £0.8m (2011/12 £0.7m) of which £0.8m was reimbursed during 2012/13 (2011/12 £0.7m). From 2010/11 the entire capitalised cost of early retirement was reimbursed in the year in which it was incurred.

At the commencement of the financial year 2012/13, £0.3m (2011/12 £0.9m) of capitalised early retirement costs relating to prior year redundancies were the subject of reimbursements to the Pension Fund by annual instalments. During 2012/13, £0.2m (2011/12 £0.6m) was reimbursed to the Pension Fund, the remaining amount to be reimbursed by instalments during the following two financial years.

## 9. DEBTORS

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Central Government Bodies | 0 | 0 |
| Other Local Authorities - Croydon Council | 618 | 268 |
| Other Local Authorities | 15 | 34 |
| NHS Bodies | 0 | 0 |
| Public Corporations and Trading Funds | 0 | 0 |
| Other Entities and Individuals: | | |
| Investment Income | 713 | 655 |
| Investment Disposals | 2,570 | 5,973 |
| Sundry Debtors | 911 | 584 |
| | 4,827 | 7,514 |

# NOTES TO THE PENSION FUND ACCOUNTS

## 10. CREDITORS

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Other Local Authorities - Croydon Council | (4,550) | (4,572) |
| Other Local Authorities - LB Bromley | (17) | 0 |
| Public corporations and trading funds | 0 | (11) |
| Other entities and individuals | | |
| Investment purchases | (3,282) | (2,394) |
| Sundry expenses | (1,319) | (1,237) |
| | (9,168) | (8,214) |

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.

## 11. ADMINISTRATIVE EXPENSES

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Pensions administration and payroll (see note below) | 840 | 1,466 |
| Audit Fees | 21 | 34 |
| Actuarial expenses and valuation fees | 102 | 184 |
| Other administrative expenses | 130 | 78 |
| | 1,093 | 1,762 |

Croydon Council's Pensions and Treasury section officers' time and related on-costs have been recharged to the Pension Fund, totalling £666k (2011/12 £909k). These relate to Croydon Council's costs of pensions administration and the non investment accounting work.

## 12. INVESTMENT MANAGEMENT EXPENSES

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Fund managers' fees (see (a) below) | 738 | 1,130 |
| Investment advisors' fees | 324 | 273 |
| Direct salary and other related expenses (see (b) below) | 270 | 266 |
| | 1,332 | 1,669 |

(a) Fund managers' fees for segregated funds are based on the value of the funds under their control. The charges for pooled funds are deducted at source from the investments held.

(b) Croydon Council's Pensions and Treasury section officers' time and related on costs totalling £270k (2011/12 £227k) have been recharged to the Pension Fund. These costs relate to all aspects of administering the investments of the Pension Fund, including investment monitoring.

## 13. INVESTMENT INCOME

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Distributions from global equity fund managers | 4,653 | 4,559 |
| Infrastructure Distribution | 8 | 0 |
| Henderson property funds | 235 | 638 |
| Schroder property funds | 1,034 | 282 |
| Interest on cash deposits | 26 | 17 |
| Other interests and adjustments | 8 | 27 |
| | 5,964 | 5,523 |

The figures above show actual investment income received by the Pension Fund. Therefore, these figures are net of any irrecoverable withholding tax. Note 20 discloses amounts that were deducted at source for taxation and irrecoverable.

## 14. LUMP SUMS

| | 2012/13 £000 | 2011/12 £000 |
|---|---|---|
| Lump sum retirement benefits | 6,551 | 11,524 |
| Ill health retirement grants | 167 | 549 |
| Death grants | 631 | 1,266 |
| | 7,349 | 13,339 |

# NOTES TO THE PENSION FUND ACCOUNTS

## 15. TRANSFERS VALUES PAID AND TRANSFERS VALUES RECEIVED

| | Transfers paid | | Transfers received | |
|---|---|---|---|---|
| | 2012/13 £000 | 2011/12 £000 | 2012/13 £000 | 2011/12 £000 |
| Group transfers | 0 | 0 | 0 | 78 |
| Individual transfers | 2,678 | 3,209 | 4,076 | 4,790 |
| Total | 2,678 | 3,209 | 4,076 | 4,868 |

## 16. 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.

## 17. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There were no contingent liabilities at 31 March 2013. The Fund had the following contractual commitments denominated in Sterling, Euros and Dollars.

| Fund Manager | Committed 000s | Drawn 000s | Due 000s |
|---|---|---|---|
| Pantheon | | | |
| USA IV Fund | $16,151 | $14,940 | $1,211 |
| USA IX Fund | $23,200 | $4,692 | $18,508 |
| Asia III Fund | $1,997 | $1,897 | $100 |
| Asia VI Fund | $12,000 | $2,400 | $9,600 |
| Euro III Fund | € 12,299 | € 11,315 | € 984 |
| Euro VII Fund | € 17,000 | € 3,485 | € 13,515 |
| Equitix | | | |
| Fund I | £10,000 | £9,674 | £326 |
| Fund II | £10,000 | £5,406 | £4,594 |
| Knightsbridge | $13,000 | $8,190 | $4,810 |

## 18. 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 £259k for 2012/13 (£408k in 2011/12), are sent directly to the relevant AVC provider.
The value at 31 March 2013 of separately invested additional voluntary contributions was £1.6m (£1.2m in 2011/12).

## 19. TOTAL CONTRIBUTIONS RECEIVABLE

There were no special or additional contributions receivable in the year.

## 20. TAXATION

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation except for tax deducted at source from Real Estate Investment Trusts (REIT's). With respect to overseas tax, where a taxation agreement exists between this country and another whereby a proportion of withholding tax deducted from investment income can be recovered, this will be reclaimed, although the amount and timescales vary from one country to another. The amount of irrecoverable withholding tax paid in 2012/13 was £0.6m (£0.3m in 2011/12).

## 21. MEMBERSHIP

Membership of the Fund consists of current and ex-employees not of pensionable age, retired employees and dependants.

| | 2012/13 | 2011/12 | % change |
|---|---|---|---|
| Contributing members | 7,501 | 6,286 | 19.33% |
| Deferred pensioners | 7,196 | 6,408 | 12.30% |
| Pensioners | 6,366 | 6,205 | 2.59% |
| Total | 21,063 | 18,899 | 11.45% |

# NOTES TO THE PENSION FUND ACCOUNTS

## 22. CONTRIBUTIONS TO THE FUND

Employees in the scheme are required by the Local Government Pension Scheme Regulations 1997 as amended in April 2007 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 are detailed below:

| Band | Range £ | Contribution Rate % |
|---|---|---|
| 1 | 0 -13,500 | 5.5% |
| 2 | 13,501-15,800 | 5.8% |
| 3 | 15,801-20,400 | 5.9% |
| 4 | 20,401-34,000 | 6.5% |
| 5 | 34,001-45,500 | 6.8% |
| 6 | 45,501-85,300 | 7.2% |
| 7 | 85,300+ | 7.5% |

For the year ended 31 March 2013 the employers' rate was 23.2% of pensionable pay for Croydon Council, the schools' non-teaching staff and scheduled bodies. Admitted bodies rates varied depending upon the rates determined by the Actuary.

## 23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

**Introduction**

CIPFA's Code of Practice on Local Authority Accounting 2012/13 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.

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.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Croydon Pension Fund, which is in the remainder of this note.

**Balance Sheet**

| Year ended | 31 Mar 2013 £m | 31 Mar 2012 £m |
|---|---|---|
| Present value of Promised Retirement Benefits | 1,267 | 1,065 |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £605m in respect of employee members, £253m in respect of deferred pensioners and £409m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

## NOTES TO THE PENSION FUND ACCOUNTS

### 23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

**Assumptions**
The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £131m.

**Financial Assumptions**
My recommended financial assumptions are summarised below:

| Year ended | 31 Mar 2013 %p.a. | 31 Mar 2012 %p.a. |
|---|---|---|
| Inflation/Pensions Increase Rate | 2.8% | 2.5% |
| Salary Increase Rate * | 4.6% | 4.3% |
| Discount Rate | 4.5% | 4.8% |

* Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter

**Longevity Assumption**
As discussed in the accompanying report, the life expectancy assumption is based on standard "SAPS" tables with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current Pensioners | 22.9 years | 25.7 years |
| Future Pensioners * | 24.9 years | 27.7 years |

* Future pensioners are assumed to be currently aged 45

This assumption is the same as at 31 March 2012.

**Commutation Assumption**
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 50% of the maximum tax-free cash for post-April 2008 service.

**Professional Notes**
This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated April 2013. 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.

Richard Warden

Prepared by:-

Richard Warden

17 May 2013

For and on behalf of Hymans Robertson LLP

# NOTES TO THE PENSION FUND ACCOUNTS

## 24. EVENTS AFTER THE REPORTING PERIOD

Although riskier assets such as equities have rallied since the end of the financial year, so called risk free assets experienced a sharp re-pricing. The US 10-year Treasury yield rose from 1.61% on 1 May to 2.235% near month-end. The value of the Fund varies on a daily basis with the fluctuations in the Market. At the end of May the value of the Fund had reduced by £12m (1.9%). To minimise volatility within the Fund, investment managers seek to position their portfolio to reduce exposure in those markets and market sectors most adversely affected by current economic risk whilst increasing exposure to sectors and stocks that are expected to perform well given the same economic conditions.

The Asset Allocation Strategy, introduced in 2009 and revised in March 2013, aims to close the funding deficit gap over a reasonable period of time whilst generating returns within a specified risk budget. Thus the Authority has exposure to a range of investments with a higher level of inherent risk than traditional asset classes such as equities and fixed income. Alternative assets tend to have a low correlation to traditional asset classes and therefore provide diversification across the Fund's investment portfolio.

## 25. FINANCIAL INSTRUMENTS

**Credit Risk**
This is the risk that parties in whom the Fund invests may fail to pay amounts that are due to the Pension Fund. An example of this would be the failure of an entity in which the Pension Fund had an investment. To minimise this risk the Fund invests via specialist fund managers in UK and overseas equities, Property, Bonds, Cash and alternative asset classes, the purpose is to achieve a consistent level of return at a low level of aggregate risk.

During 2012/13 the Pension Committee agreed a revised investment strategy.

| Asset Class | Benchmark | Original Weighting | Revised Weighting |
|---|---|---|---|
| UK and Overseas Listed Equities | MSCI AC World Index | 50% +/ - 3% | 50% +/ - 3% |
| Bonds | 18% Merrill Lynch Sterling non gilts all stocks index<br>12% Merrill Lynch Sterling Broad Market index | 30% +/ - 3% | 25% +/ - 3% |
| Property | IPD All Properties index | 7% +/ - 3% | 10% +/ - 3% |
| Funds of Hedge Funds | 3 month LIBOR plus 5% / plus 10% | 4.00% | 4.00% |
| Private Equity | MSCI AC World Index / Absolute Return of 12% | 4.00% | 5.00% |
| Infrastructure | Absolute Return of 12% | 0.00% | 5.00% |
| Global Tactical Asset Allocation | 3 month LIBOR plus 10% | 4.00% | 0.00% |
| Cash and Short Term Deposits | | 1.00% | 1.00% |
| Total | | 100.00% | 100.00% |

There is a risk that an admitted body may experience financial difficulty and be unable to meet its contributions. Contributions are payable monthly, consequently, it would become apparent at a month end if one or more admitted bodies was in difficulty. Immediate action could be taken and the maximum loss involved would be one month's contributions.

**Liquidity Risk**
This is the risk that the Fund may not possess sufficient resources to meet its financial obligations as they fall due, in particular this relates to the monthly pensioner payroll. In recent years contributions have exceeded benefits ensuring that there are sufficient funds. To address a future where this may not be the case the Fund prepares an annual budget and cash flow forecast. This will highlight occasions when funds may be insufficient and allow the orderly liquidation of assets. The Fund has its own bank account and utilises a money market fund for the short-term deposit of surplus funds.

**Refinancing Risk**
This is the risk that investments need to be sold at a time when prices are less than that which they were purchased for, resulting in a loss being made. To minimise exposure to this risk the investment managers trade their holdings at a steady rate.

## NOTES TO THE PENSION FUND ACCOUNTS

### 25. FINANCIAL INSTRUMENTS (Continued)

**Market Risk**
This is the risk that financial loss could arise as a result of changes in such measures as interest rates and stock market movements. The Fund attempts to minimise these risks as follows:

Interest rate risk - to mitigate this risk the Fund holds a fixed interest portfolio.

Price risk - this is the risk that security prices fall, potentially resulting in a loss to the Fund. To mitigate this risk the Fund's investments are managed by a number of different fund managers investing across the globe in various market sectors according to their investment mandate. Fund managers may use derivatives and 'shorting' in their management of fund assets. Under normal circumstances this should ensure that any reversals are only experienced by a small part of the Fund. However, it cannot prevent losses when there is a general retreat in prices across all major world stock markets.

Foreign exchange risk - this is the risk that exchange rate movements cause a reduction in the sterling equivalent of overseas holdings. To mitigate this risk the Fund has holdings in numerous currencies. Fund managers may also use derivates as a hedge against foreign currency exposure.

## NOTES TO THE PENSION FUND ACCOUNTS

### 25. FINANCIAL INSTRUMENTS (Continued)

**Sensitivity Analysis**
A movement of 1% in the value of equities would cause a change in the asset value of the Fund of £3.6m. A 1% change in the value of bonds would have a £2.0m effect.

**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 (excluding cash) by category and Net Assets Statement heading. The Equitix Funds were reclassified from private equity to infrastructure during the period.

| | Designated as fair value through profit and loss £000 | Loans and Debtors £000 | Financial liabilities at amortised cost £000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Fixed interest securities | 205,413 | 0 | 0 |
| Equities | 264,296 | 0 | 0 |
| Pooled investments | 102,649 | 0 | 0 |
| Pooled property investments | 37,480 | 0 | 0 |
| Hedge Funds | 13,334 | 0 | 0 |
| Private equity | 22,492 | 0 | 0 |
| Infrastructure | 22,403 | 0 | 0 |
| Cash | 0 | 26,566 | 0 |
| Short Term Deposits | | 15,000 | |
| Other investment balances | 3,283 | 0 | 0 |
| Debtors | 0 | 1,544 | 0 |
| **Total Financial Assets** | 671,350 | 43,110 | 0 |
| **Financial Liabilities** | | | |
| Other investment balances | (3,282) | 0 | 0 |
| Creditors | 0 | 0 | (5,886) |
| **Total Financial Liabilities** | (3,282) | 0 | (5,886) |
| **Net Assets** | 668,068 | 43,110 | (5,886) |

| **Net Gains and Losses on Financial Instruments** | 31 March 2013 £000 |
|---|---|
| **Financial assets** | |
| Fair value through profit and loss | 64,429 |
| Loans and debtors | 0 |
| Financial liabilities measured at amortised cost | 0 |
| **Financial liabilities** | |
| Fair value through profit and loss | 0 |
| Loans and debtors | 0 |
| Financial liabilities measured at amortised cost | 0 |
| Total | 64,429 |

**Fair Value of Financial Instruments and Liabilities**
The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values:

| | Carrying Amount £000 | Fair Value £000 |
|---|---|---|
| **Financial Assets** | | |
| Fair value through profit and loss | 671,350 | 671,350 |
| Loans and Debtors | 43,110 | 43,110 |
| Total Financial Assets | 714,460 | 714,460 |
| **Financial Liabilities** | | |
| Fair value through profit and loss | (3,282) | (3,282) |
| Financial liabilities at amortised cost | (5,886) | (5,886) |
| Total Financial Liabilities | (9,168) | (9,168) |

## NOTES TO THE PENSION FUND ACCOUNTS

### 25. FINANCIAL INSTRUMENTS (Continued)

**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, quoted index linked securities and unit trusts.

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.

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 unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the London Borough of Croydon Pension Fund has invested.

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. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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.

| **Values at 31 March 2013** | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial assets at fair value through profit and loss | 575,641 | 37,480 | 58,229 | 671,350 |
| Loans and debtors | 43,110 | 0 | 0 | 43,110 |
| **Total financial assets** | 618,751 | 37,480 | 58,229 | 714,460 |
| **Financial Liabilities** | | | | |
| Financial Liabilities at fair value through profit and loss | (3,207) | (75) | 0 | (3,282) |
| Financial liabilities at amortised cost | (5,886) | 0 | 0 | (5,886) |
| **Total financial liabilities** | (9,093) | (75) | 0 | (9,168) |
| **Net financial assets** | 609,658 | 37,405 | 58,229 | 705,292 |

# NOTES TO THE PENSION FUND ACCOUNTS

## 26. 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.

**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.

**Other price risk**

Other 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.

**Other price risk - sensitivity analysis**

Potential price changes are determined based on the observed historical volatility of asset class returns. "Riskier" assets such as equities will display greater potential volatility than bonds, so the overall outcome will depend largely on the funds' asset allocation. An example is provided below.

| Asset type | Potential market movements (+/-) |
|---|---|
| Global Equities | 12.80% |
| Total bonds plus index linked | 4.70% |
| Alternatives | 4.30% |
| Property | 6.40% |

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

| Asset type | Value £000 | Percentage Change % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Global Equities | 366,945 | 12.80% | 413,914 | 319,976 |
| Total bonds plus index linked | 205,413 | 4.70% | 215,067 | 195,759 |
| Alternatives | 58,229 | 4.30% | 60,733 | 55,725 |
| Property | 37,480 | 6.40% | 39,879 | 35,081 |
| **Total Assets** | 668,067 | | 729,593 | 606,541 |

## NOTES TO THE PENSION FUND ACCOUNTS

### 26. 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.

The Fund's direct exposure to interest rate movements as at 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| Asset type | As at 31 March 2013 |
|---|---|
| | £000 |
| Cash and cash equivalents | 7,830 |
| Cash Balances | 18,736 |
| Short Term Deposit | 15,000 |
| Fixed interest securities | 205,413 |
| Total | 246,979 |

**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 100 basis points (BPS) 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 +/- 100 BPS change in interest rates.

| Asset type | Carrying amount as at 31 March 2013 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £000 | £000 | £000 |
| Cash and cash equivalents | 7,830 | 78 | (78) |
| Cash Balances | 18,736 | 187 | (187) |
| Short Term Deposit | 15,000 | 150 | (150) |
| Fixed interest securities | 205,413 | 2,054 | (2,054) |
| Total | 246,979 | 2,470 | (2,470) |

**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 (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

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.

The following table summarises the Fund's currency exposure as at 31 March 2013.

| Currency exposure - asset type | Asset Value as at 31 March 2013 |
|---|---|
| | £000 |
| Overseas quoted securities | 246,526 |
| Overseas quoted securities - pooled | 102,578 |
| Overseas un-quoted securities | 22,492 |
| Overseas property | 11,189 |
| Overseas bonds (quoted) | 78,864 |
| Total overseas assets | 461,649 |

**Currency risk - sensitivity analysis**
Following analysis of historical data in consultation with the Fund's performance management provider (WM Company), the Council considers the likely volatility associated with foreign exchange rate movements to be 5.3% (as measured by one standard deviation).

A 5.3% fluctuation in the currency is considered reasonable based on the WM Company's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

# NOTES TO THE PENSION FUND ACCOUNTS

## 26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

A 5.3% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| **Currency exposure - asset type** | **Asset Value as at 31 March 2013** | **Change in net assets available to pay benefits** | |
|---|---|---|---|
| | | **+5.3%** | **-5.3%** |
| | **£000** | **£000** | **£000** |
| Overseas quoted securities | 246,526 | 259,592 | 233,460 |
| Overseas quoted securities - pooled | 102,578 | 108,015 | 97,141 |
| Overseas un-quoted securities | 22,492 | 23,684 | 21,300 |
| Overseas property | 11,189 | 11,782 | 10,596 |
| Overseas bonds (quoted) | 78,864 | 83,044 | 74,684 |
| Total overseas assets | 461,649 | 486,117 | 437,181 |

**Credit risk**
Credit risk 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.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2013 was £33.74 million (£6.9 million at 31 March 2012). This was held with the following institutions:

| **Summary** | **Rating at 31 March 2013** | **Balances as at 31 March 2013** |
|---|---|---|
| | | **£000** |
| Money Market Funds | | |
| Goldman Sachs | AAA | 6,984 |
| Short Term Deposit Account | | |
| Lloyds TSB | A | 15,000 |
| Current Account | | |
| Royal Bank of Scotland | | 11,752 |
| Total | | 33,736 |

**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 2013 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.

# 10. Pension Fund Auditors Report

## Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Croydon for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the Member of London Borough of Croydon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Director of Finance and Assets and Section 151 Officer and auditor

As explained more fully in the Statement of the Director of Finance and Assets and Section 151 Officer Responsibilities, the Director of Finance and Assets and Section 151 Officer is responsible for the preparation of the pension fund financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Assets and Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the pension fund annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

## Opinion on pension fund financial statements

In our opinion, the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

**Grant Thornton UK LLP**

# 11. Actuarial Statement

MERCER

## LONDON BOROUGH OF CROYDON PENSION FUND

*Accounts for the year ended 31 March 2011*

**Statement by Consulting Actuary**

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the London Borough of Croydon Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £583 million represented 66% of the Funding Target of £884 million at the valuation date. The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 9.9% of pensionable pay for 24 years. This would imply an average employer contribution rate of 23.0% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). In particular, there were variations in the approach adopted in setting the Funding Target for certain employers. Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

| | For past service liabilities | For future service liabilities |
|---|---|---|
| Rate of return on investments: | 6.0% per annum | 6.75% per annum |
| Rate of pay increases: | 4.75% per annum | 4.75% per annum |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension): | 3.0% per annum | 3.0% per annum |

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

**Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a., rather than the rate as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £951 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a.. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £913 million.

**John Livesey**
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2011