

Croydon Pension Scheme

Annual Report 2010/2011



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Foreword

It is with a sense of relief that I present to you this annual report on the Croydon Pension Fund: relief that the Fund has for another year successfully weathered the continuing global financial crisis intact, but tempered by awareness that there is undoubtedly further turbulent times ahead.



This is the sixth annual report produced while I have been Chairman of the Pensions Committee and before I review the political and economic climate I must extend my grateful appreciation to those who contribute to the efficient working of the Committee. The six Councillors on the Committee, reflecting the political balance of the Council, and pensioner and staff-side representatives, are supported by co-opted, non-voting members, external professional advisors and Council Officers. The Committee provides guidance and direction to the Council's Pension Fund. With the financial crisis still rippling outwards from the market collapse of 2008/2009 there has never been a more challenging time in which to manage a pension fund.

The concerns that have weighed on the Committee in earlier years continued to dominate the agenda over the last year. The US, that great engine of the global economy, remained firmly in the doldrums with high levels of unemployment and political discourse unable to offer any way forward. Japan suffered twin tragedies, from earthquake and tidal wave with terrible human suffering and loss of life, and still struggles to recover the damage done to its nuclear industry, with little effective political leadership. Europe found itself descending into a crisis as confidence in individual states' own finances were questioned. The UK fared little better as cuts to public spending depressed economic growth.

Against this background the Pension Fund managed to steer a course that saw growth in the value of the Fund. This was due to the changes embedded in earlier years in the types of investment made and the way that the Fund engaged with fund managers.

With public sector pensions featuring so frequently in the headlines and news bulletins the Committee has been active in supporting many continuing initiatives to keep scheme members informed. From the Open Day for staff in March through to many visits to staff at their work-place, the pensions administration team have worked hard to keep employees aware of the facts behind the public debates and to emphasise the value of the local government scheme.

2010/2011 saw continuing challenges facing local government pension provision, and no doubt these challenges will face us for many years to come. But the message to leave you with is that the Croydon scheme remains strong and well-managed and the benefits of membership are a valuable part of the overall remuneration package and a benefit that the Committee remains committed to protecting.

A handwritten signature in black ink that reads "Dudley Mead". The signature is written in a cursive style and is underlined.

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. The Pension Committee is responsible for:

- 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 six 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 2010/2011 Municipal year are listed below:

Councillors:

Chairman:	Dudley Mead
Vice-Chairman:	Yvette Hopley
Members:	Jan Buttinger
	Simon Hall
	Raj Rajendran
	Donald Speakman

Non-voting members:

Pensioners' Representatives:	Gilli Driver
	Alan Muir
Co-opted Members:	Mike Brakes
	Derek Millard
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

Nathan Elvery
Deputy chief director and Executive Director of Resources & Customer Services

Investment Advisors:

Robert Howie – Mercer Investment Consulting (until April 2011)
Ian Bailey - AON Hewitt (from April 2011)
Valentine Furniss – Independent Adviser

Actuary:**Until 31 March 2011:**

Mercer Human Resource Consulting
Mercury Court
Tithebarn Street
Liverpool L2 2QH

From 1 April 2011:

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:

Audit Commission (External), Deloitte (Internal)

Bank:

Royal Bank of Scotland

Legal Advisors:

Wragg & Co.
3 Waterhouse Square
142 Holborn
London EC1N 2SW

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:



2.2. Administrators to the Fund:



WM PERFORMANCE SERVICES
A State Street Business

3. Publications

The Pension Fund publishes a number of documents on the Council's website www.croydon.gov.uk. 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

4. Membership

4.1. Organisations

4.1.1. Admitted:

Age UK Croydon
Apetito
BRIT School
Cabrini Children's Society
Creative Environmental Network
Croydon Citizens Advice Bureau
Croydon Community Mediation
Croydon Voluntary Action
Eden Foodservice
Eldon PFI
Fairfield (Croydon) Limited
Fusion
Harris Academy Purley
Harris City Academy Crystal Palace
Harris City Academy South Norwood
Interserve
Kier
Oasis Academy Coulsdon
Oasis Academy Shirley Park
Olympic (South) Ltd
Pegasus Academy
Quest Academy
Ruskin Private Hire
Sodexo
Veolia
Vinci Facilities
Wallington Cars and Couriers

4.1.2. Scheduled:

London Borough of Croydon
Coulsdon College
Croydon College
John Ruskin College

4.2. Analysis of Membership Numbers 2010/2011

During the year the Scheme's total membership has grown from 18,210 to 18,602. Changes in membership during the year were as follows:

Employees

Number at 31 March 2010		6,890
Add	Employees joining during year	722
Less	Members leaving during year:	
	Normal retirements (including redundancies etc)	(165)
	Ill-health retirements	(11)
	Deaths in service	(12)
	Refunds of contributions	(33)
	Deferred pensions	(625)
Number at 31 March 2011		6,766

Pensioners

Number at 31 March 2010		5,760
Add	New pensioners during year:	
	Normal retirements (including redundancies etc)	165
	Ill-health retirements	11
	Dependants' pensions	74
	Deferred pensions becoming payable	138
Less	Deaths/dependants ceasing to be eligible	(153)
Number at 31 March 2011		5,995

Deferred Pensioners

Number at 31 March 2010		5,560
Add	New deferred pensioners during year	625
Less	Deferred benefits becoming payable	(138)
	Back to active status	(26)
	Transfers to other Schemes	(171)
	Deaths	(9)
Number at 31 March 2011		5,841
Total Membership at 31 March 2011		18,602

4.3. Resources for Members

4.3.1. National Local Government Pension Scheme Web Site

The 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.

4.3.2. Additional Voluntary Contributions

The Council has appointed Prudential as the Scheme's provider for additional voluntary contributions investment services.

If you would like more information all you have to do is call "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

4.3.3. Further Information

The Pensions Regulator

Napier House
Trafalgar Place
Brighton

East Sussex BN1 4DW

Telephone Number: 0870 606 3636 (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.
-

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.

The Pensions Ombudsman

At the same address as TPAS

Telephone Number: 020 7834 9144

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.

The Pension Tracing Service

The Pension Service
Tyneview Park, Whitley Road
Newcastle-upon-Tyne NE98 1BA

Telephone Number: 0845 600 2537

Website: www.pensionservice.gov.uk

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.

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

4.4. 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.

You can log in to the service at:

<http://www.croydon.gov.uk/democracy/budgets/pensions/penmemberinfo/pens-selfservice>
and request a password.

5. The scheme at a glance

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. But 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, normally equivalent to three year's 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.

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. Cost of living increases

Pensions payable to members who retire on health grounds and to members' spouses etc and children 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.

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

6. Changes to the Local Government Pension Scheme

The principal regulations were amended during the year by a statutory instrument called 'The LGPS (Miscellaneous) Regulations 2010 S.I. 2010/2090' that came into force 30 September 2010. These regulations make a number of mostly technical clarifications and corrections to the principal regulations.

Independent Public Service Pensions Commission

Lord Hutton of Furness was commissioned by HM Treasury to chair an independent Public Service Pensions Commission to look into reform of the public sector pensions schemes including the LGPS. That commission released its interim report on 7 October 2010 and a final report on 10 March 2011. The final report set out a number of detailed recommendations which the Government have accepted as the basis for consultation.

Pay Bands 2010

The pay bands that determine the rate of scheme contributions for members are uplifted annually by the same percentage as pensions.

This year public sector occupational pensions increased by zero percent; therefore the pay bands by which a member's rate of contributions are determined stayed the same. Where a member had an annual incremental increase, this may have resulted in them paying a higher rate of contributions from April 2010.

Band	Salary Range	Contribution Rate
1	£0 to £12,600	5.5%
2	Over £12,601 to £14,700	5.8%
3	Over £14,701 to £18,900	5.9%
4	Over £18,901 to £31,500	6.5%
5	Over £31,501 to £42,000	6.8%
6	Over £42,001 to £78,700	7.2%
7	Over £78,700+	7.5%

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 audited bodies to prevent and detect fraud.

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively. The use of data for NFI purposes is controlled to ensure compliance with data protection and human rights legislation. In 2006 the Audit Commission published a Code of Data Matching Practise, which, for the 2008/09 NFI exercise, has been updated to take account of new legislation as a result of the Serious Crime Act 2007.

The NFI currently matches all public sector pension scheme data to the Department for Work and Pensions (DWP) database of deceased persons. This acts as an automated life certification process for the Pension Fund.

Croydon Council is committed to the NFI process and undertook the data matching exercise in 2010. The Fund accepts that the vast majority of payments are legitimate but this exercise is very much worthwhile in order to protect the Pension Fund against any possible fraud. Any cases where fraud is suspected will be pursued and where necessary, legal action taken.

7. Management of the Assets

The distribution of the Fund's assets among investment managers at 31st March 2011 is outlined below.

Investment Manager	Investment Mandate	% of Fund
Deutsche Bank Advisors	Global Thematic Equities (segregated)	8.86%
Fidelity	Global Equities including emerging markets (segregated)	17.21%
Franklin Templeton	Global Equities (segregated)	9.00%
Edinburgh Partners	Global Opportunities Fund (Pooled) (US Dollar)	8.33%
Sarasin	Global Thematic Fund (Pooled)	8.97%
Pantheon Private Equity	Invest in unquoted companies (Pooled)	2.05%
Equitix	Private equity – PFI projects (Pooled)	1.30%
Knightbridge	Private equity – Venture capital (Pooled) (US Dollar)	0.37%
Standard Life	Corporate Bond Fund (Pooled)	17.41%
Wellington	Sterling Core Bond (Pooled)	11.57%
Bluecrest	Fund of Hedge Funds (Poolod)	1.97%
Fauchier	Fund of Hedge Funds (Poolod)	1.84%
Henderson Global Investors	Property Funds	5.97%
Nordea	Global Tactical Asset Allocation (Pooled)	3.50%
All Fund Managers – Cash Management	Maximising short term returns prior to the investment of funds	0.73%
London Borough of Croydon Cash Management	Cash LIBID 7 day notice deposit account	1.32%
Non Cash Net Fund Manager balance	Not applicable	0.24%
Non Cash Net London Borough of Croydon balance	Not applicable	0.64%
Total		100.00%

During 2009-10 the Pension Fund's investment portfolio was restructured with the objective of achieving a more consistent level of return, aligned with the 25 year recovery plan for the Fund, with a much lower aggregate level of risk. The Pensions Committee has authorised the Deputy Chief Executive and Executive Director of Resources and Customer Services 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.

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	50.00%
Private Equity	4.00%
Bonds	30.00%
Fund of Hedge Funds	4.00%
Property	7.00%
Global Tactical Asset Allocation	4.00%
Cash / Other	1.00%
Total	100.00%

7.1. Fees

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

7.2. Monitoring the Investment Managers

Performance of the investment managers is measured by the World Markets (WM) Company. Their 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 timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's investment managers have responsibility for generating cash for investment in new assets. The Pension Committee decides, with the advice from its investment advisers, on how 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 scheduled to meet at least quarterly and formal minutes are taken and acted on accordingly. Ad-hoc meetings are held, where necessary, to discuss matters of an urgent nature.

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 UK equity holdings. The other holdings of the Fund are in pooled arrangements where the custodian is determined by the investment manager.

8. Investment Report

8.1. General

During 2010/11, for local authority pension funds, there was an average increase in value of 8.2%. This was above CPI inflation and average weekly earnings of 4.0% and 2.3% respectively.

The financial year ending 31 March 2011 saw a decrease for equities in the major markets with returns of 8.5% in the UK, 7.5% in Europe, -4.0% in Japan and 9.6% in North America. Equity returns were still in advance of the UK bonds (gilts) return of 5.1%.

8.2. Strategy

The Pension Committee has reviewed its strategy for allocating the Pension Fund to various investment categories. The revised asset allocation strategy is intended to generate an investment return on the Fund in line with the requirements of the Actuary's 25 year recovery plan (the recovery period was reduced 24 years in the 2010 Triennial Valuation), but at a much lower level of risk. This strategy is set out in detail within the Statement of Investment Principles, published on the Council's website.

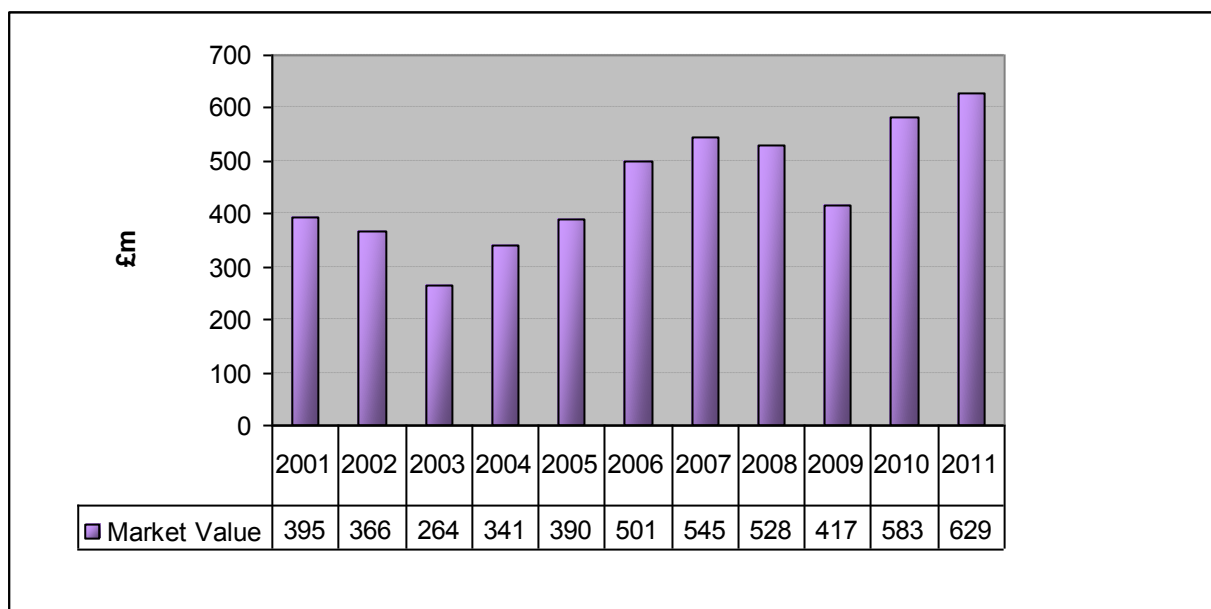
8.3. Performance

The Fund's performance is compared with the Council's own customised benchmarks and to the average return from 87 local authority pension funds, as measured by WM Company. During the 2010/11 financial year the Fund's return of 6.5% underperformed its customised benchmark of 7.8% by 1.3%. The Fund also underperformed the average return for local authorities of 8.2%.

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.

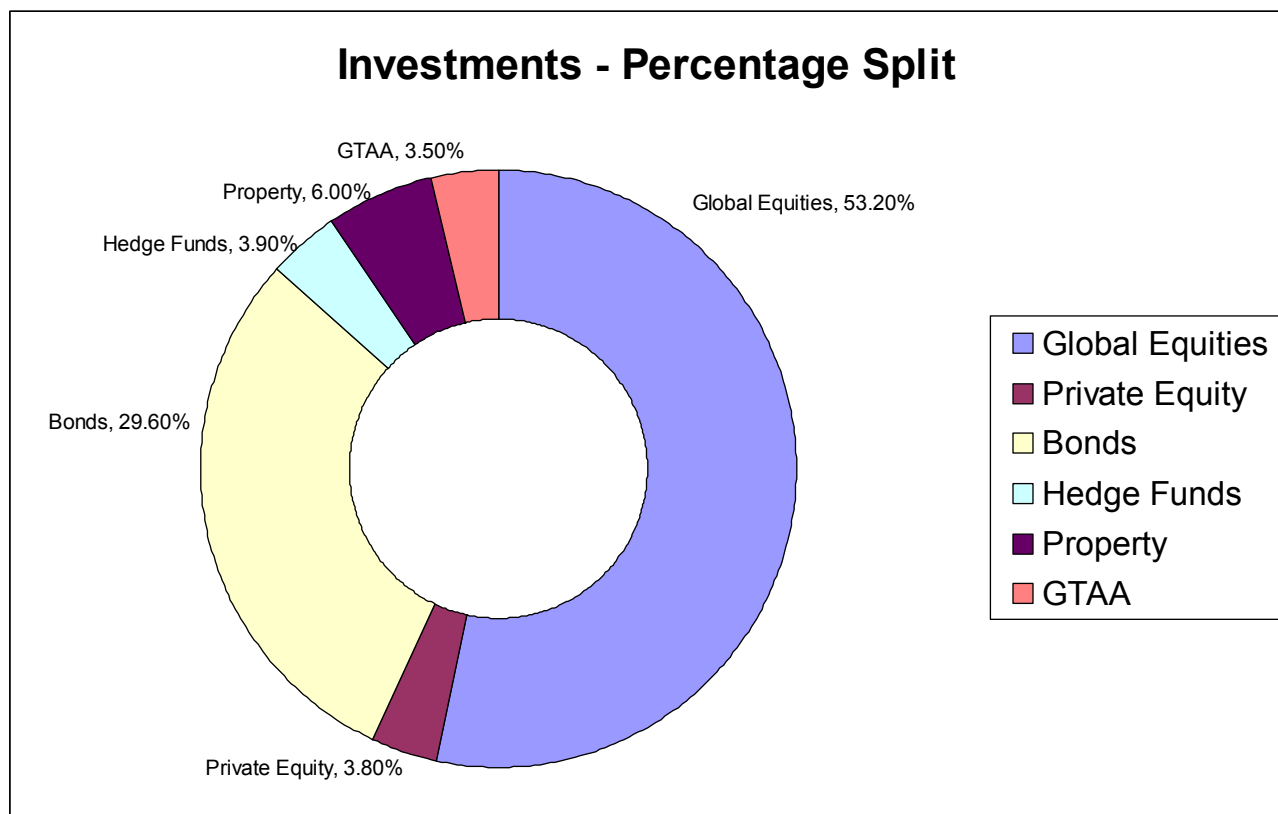
8.4. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2011 were £629 million compared with £395 million at 31 March 2001. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2010/11 £m	%
Market Value of investments	618.9	98.35%
Other Balances held by Fund Managers	1.5	0.24%
Cash held by Fund managers	4.6	0.73%
Pension Fund Net Current Assets	4.3	0.68%
Total at the end of the year	629.3	100.0

8.5. Distribution of Assets by Market Value



Investments	2010/11 £000s	% of Investments
Global Equities	328,869	53.20%
Private Equity	23,453	3.80%
Bonds	183,151	29.60%
Hedge Funds	23,975	3.90%
Property	37,586	6.00%
GTAA	21,883	3.50%
Other Investments	22	-
Total at the end of the year	618,939	100.00%

8.6. Statistics 2010/2011

Returns	Croydon Fund	Average Local Authority
1 year (% per year)	6.5	8.2
3 years (% per year)	4.7	5.4
5 years (% per year)	3.8	4.0
10 years (% per year)	n/a	5.3

Pension Fund Investment Distribution:	Croydon Fund	Average Local Authority
Global Equities	53.20%	55.00%
Private Equity	3.80%	3.80%
Bonds	29.60%	17.10%
Hedge Funds	3.90%	2.60%
Property	6.00%	6.80%
GTAA	3.50%	0.20%

8.7. Top 25 Global Holdings

	Market Value At 31 March 2011	% of Total Global Equity Investment
APPLE INC	4,000,567	1.22%
SAIPEM	2,237,444	0.68%
SCHLUMBERGER LTD	2,123,123	0.65%
AMAZON.COM INC	2,045,208	0.62%
CSL	1,839,290	0.56%
DANAHER CORP	1,805,289	0.55%
NOBLE GROUP	1,766,827	0.54%
LI & FUNG	1,762,070	0.54%
INDUSTRIA DE DISEÑO TEXTIL SA	1,727,642	0.53%
UNITED OVERSEAS BANK	1,700,920	0.52%
GETINGE AB	1,693,722	0.52%
UMICORE NPV	1,662,980	0.51%
MACQUARIE GROUP LIMITED	1,657,701	0.50%
DENDREON CORP	1,634,549	0.50%
TERUMO CORP	1,630,097	0.50%
VISA INC	1,621,472	0.49%
COCHLEAR LTD COM	1,603,531	0.49%
DEUTSCHE BOERSE AG	1,601,233	0.49%
JPMORGAN CHASE & CO	1,592,125	0.48%
WORLEYPARSONS LTD	1,589,660	0.48%
HANG LUNG PROPERTIES LTD	1,565,700	0.48%
RECKITT BENCKISER GROUP PLC	1,565,289	0.48%
PRAXAIR INC	1,540,665	0.47%
MERCADOLIBRE INC	1,527,184	0.46%
SYNGENTA AG	1,526,637	0.46%
	45,020,925	13.7%

9. Pension Fund Annual Accounts 2010/11

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:

Age Concern, Apetito, BRIT School, Cabrini Children's Society, Creative Environmental Network, Croydon Citizens Advice Bureau, Croydon Community Mediation, Croydon Voluntary Action, Fairfield (Croydon) Limited, Fusion, Harris City Academy Crystal Palace, Harris City Academy South Norwood, Interserve, Oasis Academy Coulsdon, Veolia, Eldon Care Home, Harris Federation Purley, Harris Federation Crystal Palace, Courier Cars, Wallington Cars, Oasis Academy Shirley Park, Olympic (South) Ltd, Sutton Jigsaw, Vinci Facilities and The Quest Academy.

Scheduled:

London Borough of Croydon, Coulsdon College, Croydon College, and John Ruskin College.

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 six voting Members of the Council, two non-voting pensioner representatives, a co-opted non-voting member 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 Code of Practice on Local Authority Accounting in the United Kingdom 2010, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. STATEMENT OF INVESTMENT PRINCIPLES

This is published in the Croydon Pension Scheme Annual Report.

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.

Transfer Values

Transfer values receivable and payable that were not received or paid by Croydon Council (acting on behalf of the Pension Fund) at the year end, are not included within the financial statements for the year in accordance with the accounting treatment required by the Pensions SORP (Statement of Recommended Practice).

AVCs

Additional voluntary contributions, which are separately invested, are not included in the Pension Fund Accounts in accordance with Regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No.1831).

Valuation of Investments

All investments are valued at fair value within the accounts. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The implementation of this principle is explained in detail for each class of asset in the notes to the accounts.

Investment Management and Administration Costs

Paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008 permits the Council to charge the scheme's administration and investment management costs to the Fund. A proportion of relevant Council officers' salaries including related on-costs (these consist mainly of employer's National Insurance Contributions and employer's pension contributions) have been charged to the Fund on the basis of actual time spent on scheme administration and investment related business. The fees of professional advisors and administrators are also charged to the Fund.

Returns on Investments

The returns on investments include; investment income, the net gain or loss on currency transactions, the realised and unrealised gain or loss on investments.

Acquisition Costs

The cost of acquiring property and securities includes brokerage commission, legal fees and stamp duty.

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.

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. 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 2011**CONTRIBUTIONS AND BENEFITS**

	Note No.	2010/11 £000	Restated 2009/10 £000
Employees' contributions:			
London Borough of Croydon		8,567	8,406
Scheduled bodies		393	456
Admitted bodies		767	617
Employers' contributions:			
London Borough of Croydon		29,303	27,578
Scheduled bodies		1,373	1,519
Admitted bodies		2,177	1,761
Employers' deficit funding contributions		146	125
Transfer values received	15	8,324	9,877
Early retirement costs recovered	8	2,996	1,747
		54,046	52,086
Benefits - Pensions		29,035	28,026
- Lump sums	14	8,314	9,088
Payments to and on account of leavers - Refund of contributions		7	61
- Transfer values paid	15	5,376	6,324
Administrative expenses	11	1,728	1,497
		44,460	44,996
Net additions / (withdrawals) from dealings with members		9,586	7,090

RETURNS ON INVESTMENTS

	Note No.	2010/11 £000	2009/10 £000
Investment income	13	5,783	9,130
Net gains / (losses) on currency revaluations and underwriting commissions		76	73
Change in market value of investments:			
Unrealised	3	22,093	34,648
Realised	3	10,212	116,571
Investment management expenses	12	(1,872)	(1,095)
Net returns on investments		36,292	159,327
Net increase / (decrease) in the Fund during the year		45,878	166,417
Net assets at the start of the year		583,461	417,044
Net assets at the end of the year		629,339	583,461

PENSION FUND ACCOUNTS

NET ASSETS STATEMENT AS AT	Note	31 March	Restated	
	No.	2011	31 March	1 April
		£000	2010	2009
			£000	£000
Investments held by the Fund Managers:				
Global equities	2 - 5	328,869	309,241	329,785
Private equity	2 - 5	23,453	16,483	13,044
Bonds	2 - 5	183,151	178,269	28,325
Hedge funds	2 - 5	23,975	23,017	0
Property	2 - 5	37,586	25,254	5,284
Global Tactical Asset Allocation	2 - 5	21,883	22,283	0
Transition account	2 - 5	22	21	0
Total Investments held by the Fund Managers		618,939	574,568	376,438
Other Balances held by the Fund Managers				
Outstanding dividends and tax reclaimable		934	630	1,430
Outstanding trades for securities sold		1,167	2,047	2,018
Outstanding trades for securities purchased		(595)	(2,248)	(2,087)
Total Other Balances held by the Fund Managers		1,506	429	1,361
Cash held by the Fund Managers		4,602	7,587	9,406
Total asset held by the Fund Managers		625,047	582,584	387,205
Net current assets:				
Receivables	9	2,561	717	2,487
Cash held by the London Borough of Croydon		28	7,052	34,011
Cash on deposit with Goldman Sachs		8,295	0	0
Payables	10	(6,592)	(6,892)	(6,659)
Net assets at the end of the year		629,339	583,461	417,044

A third (1 April 2009) Net Asset Statement is presented. It is a requirement of the IFRS Code of Practice that a Net Asset Statement is presented as at the date of transition (1 April 2009). There are no differences between the closing sheet on 31 March 2009 and the IFRS1 opening Balance Sheet on 1 April 2009.

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 2010/11 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.

To contribute towards funding their share of the deficit one admitted body (BRIT School) decided to make a deficit funding payment of £146k during 2010/11 (£125k in 2009/10). The amount is separately disclosed as required by the SORP. However, as stated above the London Borough of Croydon and the scheduled and admitted bodies are all contributing towards reducing the deficit through increased monthly contributions in accordance with the recovery plan.

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

2. INVESTMENTS

The Pensions Committee agreed to authorise the then Executive Director of Finance and Resources, now the Deputy Chief Executive and Executive Director of Corporate Resources and Customer Services, 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.

The Fund's advisors gave their views on the appropriate asset allocations for the fund. From their advice the following target asset allocation was determined:

Asset Class	Investment
Equities	50.00%
Private Equity	4.00%
Bonds	30.00%
Fund of Hedge Funds	4.00%
Global Tactical Asset Allocation	4.00%
Property	7.00%
Cash	1.00%
Total	100.00%

NOTES TO THE PENSION FUND ACCOUNTS

2. INVESTMENTS (continued)

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

* Henderson have surrendered their property mandate and Schroders have been appointed to replace them effective from mid 2011/12.

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 was outsourced to Bank of New York Mellon (BoNYM) with effect from 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 Equity Funds (Sarasin and Edinburgh Partners)*****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.

Edinburgh Partners

The investment with Edinburgh Partners is in their Global Opportunities 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 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 and Global Tactical Asset Allocation

Pricing supplied by Globeopp.net. Net asset values are reconciled on a daily basis.

Property

The Fund does not have any direct investments in property but invests indirectly through the property fund manager Henderson Global Investors, who invest in several property funds that are repriced by BoNYM at their bid prices.

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	309,241	158,051	(155,790)	9,598	7,769	328,869
Private equity	16,483	6,773	(3,012)	426	2,783	23,453
Bonds	178,269	770	(6,331)	247	10,196	183,151
Hedge funds	23,017	3,302	(3,302)	72	886	23,975
Property	25,254	11,605	0	0	727	37,586
Global Tactical Asset Allocation	22,283	0	0	0	(400)	21,883
Transition account	21	0	0	(131)	132	22
	574,568	180,501	(168,435)	10,212	22,093	618,939

4. ANALYSIS OF INVESTMENTS

Investments are valued at the close of business on 31 March 2011 in accordance with the valuation methodologies detailed in Note 2.

	Book £000	2011 Market £000	Market %	Book £000	2010 Market £000	Market %
Global equities						
DB Advisors	52,454	55,038	8.9%	47,382	51,776	9.0%
Edinburgh Partners	48,255	52,442	8.5%	47,547	53,195	9.3%
Fidelity	92,272	108,296	17.5%	88,751	99,082	17.2%
Franklin Templeton	48,643	56,648	9.2%	46,199	52,516	9.1%
Sarasin	46,848	56,445	9.1%	46,734	52,672	9.2%
Total equities	288,472	328,869	53.2%	276,613	309,241	53.8%
Private Equity						
Pantheon Ventures	7,258	12,887	2.1%	8,569	12,125	2.1%
MUST 2 (Mercury Unquoted Securities Trust)	0	8	0.0%	0	20	0.0%
Equitix	7,360	8,210	1.3%	3,181	3,181	0.6%
Knightsbridge	2,662	2,348	0.4%	1,408	1,157	0.2%
Total private equity	17,280	23,453	3.8%	13,158	16,483	2.9%
Bonds						
DB Advisors	709	720	0.1%	350	396	0.0%
Standard Life	102,010	109,594	17.7%	105,409	107,307	18.6%
Wellington	67,946	72,837	11.8%	70,215	70,566	12.3%
Total Bonds	170,665	183,151	29.6%	175,974	178,269	31.0%
Hedge Fund of Funds						
Bluecrest	11,230	12,390	2.0%	11,230	11,608	2.0%
Fauchier	11,314	11,585	1.9%	11,243	11,409	2.0%
Total Hedge Fund of Funds	22,544	23,975	3.9%	22,473	23,017	4.0%
Property						
Henderson Global Investors	37,586	37,586	6.0%	25,981	25,254	4.4%
Global Tactical Asset Allocation						
Nordea	24,000	21,883	3.5%	24,000	22,283	3.9%
Bank of New York Mellon						
Other investment balances *	22	22	0.0%	153	21	0.0%
Total investments	560,569	618,939	100.0%	538,352	574,568	99.9%

NOTES TO THE PENSION FUND ACCOUNTS

4. ANALYSIS OF INVESTMENTS (continued)

At the close of the 2010/11 accounting period the UK economy was continuing to recover from the recession. During the year the FTSE 100 varied between a low of 4,824 and a high of 6,060. The continuing recovery is reflected in the increase in the valuation of the Pension Fund's assets. However, the sustainability of the recovery is still not certain.

* Other Investment Balances

The Pension Fund holds title to various shares in financial bodies that were casualties of the recent financial crisis - i.e. Bradford and Bingley and Northern Rock. Although the market values these holdings at zero value the Fund still has rights which may in future give rise to a cash settlement. The Fund's custodian holds the documentation relating to these holdings.

5. GEOGRAPHICAL ANALYSIS OF INVESTMENTS

	2011			2010		
	UK £000	Foreign £000	Total £000	UK £000	Foreign £000	Total £000
Global equities (Quoted)						
DB Advisors	2,997	52,041	55,038	4,330	47,446	51,776
Edinburgh Partners	0	52,442	52,442	0	53,195	53,195
Fidelity	7,232	101,064	108,296	7,541	91,541	99,082
Franklin Templeton	5,954	50,694	56,648	7,478	45,038	52,516
Sarasin	0	56,445	56,445	0	52,672	52,672
Total equities	16,183	312,686	328,869	19,349	289,892	309,241
Private Equity (Unquoted)						
Pantheon Ventures	0	12,887	12,887	0	12,125	12,125
MUST 2 (Mercury Unquoted Securities Trust)	8	0	8	20	0	20
Equitix	8,210	0	8,210	3,181	0	3,181
Knightsbridge	0	2,348	2,348	0	1,157	1,157
Total private equity	8,218	15,235	23,453	3,201	13,282	16,483
Bonds (Quoted)						
DB Advisors	0	720	720	0	396	396
Standard Life	109,594	0	109,594	107,307	0	107,307
Wellington	0	72,837	72,837	0	70,566	70,566
Total Bonds	109,594	73,557	183,151	107,307	70,962	178,269
Hedge Fund of Funds (Quoted)						
Bluecrest	12,390	0	12,390	11,608	0	11,608
Fauchier	11,585	0	11,585	11,409	0	11,409
Total Hedge Fund of Funds	23,975	0	23,975	23,017	0	23,017
Property (Quoted)						
Henderson Global Investors	24,369	13,217	37,586	20,268	4,986	25,254
Global Tactical Asset Allocation (Quoted)						
Nordea	21,883	0	21,883	22,283	0	22,283
Bank of New York Mellon						
Other investment balances *	22	0	22	21	0	21
Total investments	204,244	414,695	618,939	195,425	379,122	574,568

All investments held by the Pension Fund, apart from Private Equity, are quoted.

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.
Receivables - Note 9	Amounts due in respect of employers and employees contributions.
Payables - 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 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 2010/11 the capitalised cost of early retirements (due to redundancy) requiring reimbursement to the Pension Fund was £1.8m (2009/10 £1.4m) of which £1.8m was reimbursed during 2010/11 (2009/10 £0.8m). From the current year onwards (2010/11) the entire capitalised cost of early retirement will be reimbursed in the year in which it is incurred.

At the commencement of the financial year 2010/11, £2.0m (2009/10 £2.4m) of capitalised early retirement costs relating to prior year redundancies were the subject of reimbursements to the Pension Fund by annual instalments. During 2010/11 £1.1m (2009/10 £0.9m) was reimbursed to the Pension Fund, the remaining amount to be reimbursed by instalments during the following two financial years.

9. RECEIVABLES

	2010/11 £000	2009/10 £000
Contributions due in respect of:		
Employers' contributions	514	521
Employees' contributions	160	165
Other receivables	1,887	31
	2,561	717

There were no material contributions due from employer bodies which were paid late.

Included in other receivables in 2010/11 is £1.87m of capitalised early retirement costs (due to redundancy) charged by the Pension Fund in 2010/11 to Croydon Council and other bodies but not settled by them as at 31 March 2011. In 2009/10 an amount of £0.9m was charged to Croydon Council and other bodies for early retirement costs due to redundancy. At 31 March 2010 this amount had been settled.

(See Note 4 of the Statement of Accounting Policies and Principles for an explanation of early retirement costs).

NOTES TO THE PENSION FUND ACCOUNTS

10. PAYABLES

	2010/11	2009/10
	£000	£000
Croydon Council	(5,404)	(6,093)
Unpaid benefits	0	0
Accrued expenses	(1,188)	(799)
	(6,592)	(6,892)

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

	2010/11	2009/10
	£000	£000
Pensions administration and payroll (see note below)	1,519	1,291
Actuarial expenses and valuation fees	112	53
Other administrative expenses	97	153
	1,728	1,497

£732k (2009/10 £708k) of Croydon Council's Pensions and Treasury section officers' time and related on-costs has been recharged to the Pension Fund. These relate to Croydon Council's costs of pensions administration and the non-investment accounting work.

12. INVESTMENT MANAGEMENT EXPENSES

	2010/11	2009/10
	£000	£000
Fund managers' fees (see (a) below)	1,526	509
Investment advisors' fees	195	277
Direct salary and other related expenses (see (b) below)	151	309
	1,872	1,095

(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) £114k (2009/10 £291k) of Croydon Council's Pensions and Treasury section officers' time and related on-costs has been recharged to the Pension Fund in relation to all aspects of administering the investments of the Pension Fund including investment monitoring.

13. INVESTMENT INCOME

	2010/11	2009/10
	£000	£000
Final distribution from the terminated UBS FTSE350 investment	103	6,745
Initial distributions from the new global equity fund managers	4,490	1,497
Distributions from Private Equity	0	81
Henderson property funds	954	280
Interest on cash deposits	11	0
Other interests	225	527
	5,783	9,130

14. LUMP SUMS

	2010/11	2009/10
	£000	£000
Lump sum retirement benefits	6,547	7,533
Ill health retirement grants	1,135	1,124
Death grants	632	431
	8,314	9,088

NOTES TO THE PENSION FUND ACCOUNTS

15. TRANSFERS VALUES PAID AND TRANSFERS VALUES RECEIVED

	Transfers paid		Transfers received	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
Group transfers	0	0	0	0
Individual transfers	5,376	6,324	8,324	9,877
Total	5,376	6,324	8,324	9,877

16. DETAILS OF STOCK RELEASED TO THIRD PARTIES UNDER 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 2011. 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	\$13,970	\$2,181
Asia III Fund	\$1,997	\$1,788	\$209
Asia VI Fund	\$12,000	\$1,260	\$10,740
Euro III Fund	€ 12,299	€ 10,946	€ 1,353
Equitix	£10,000	£7,906	£2,094
Knightsbridge	\$13,000	\$2,210	\$10,790

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 £298k for 2010/11), are sent directly to the relevant AVC provider.

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.

21. MEMBERSHIP

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

	2010/11	2009/10	% change
Contributing members	6,766	6,890	(1.80%)
Deferred pensioners	5,841	5,560	5.05%
Pensioners	5,995	5,760	4.08%
Total	18,602	18,210	2.15%

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 -12,600	5.5%
2	12,601-14,700	5.8%
3	14,701-18,900	5.9%
4	18,901-31,500	6.5%
5	31,501-42,000	6.8%
6	42,001-78,700	7.2%
7	78,701+	7.5%

Manual Workers Banding - Year Commencing

1 April 2008	5.25%	Note. 2010/11 is the final year of phasing in for manual workers.
1 April 2009	5.50%	From 2011/12 onwards they will pay contributions within the same
1 April 2010	6.50%	bands and rates as all other employees.

For the year ended 31 March 2011 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. PUBLIC SECTOR PENSION INCREASES

In his budget statement on 22 June 2010, the Chancellor announced that the Government would start to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI), which has been the practice in the past.

The actuaries have allowed for this change, by assuming that over the long term CPI will be less than RPI by 0.5% p.a. The effect of this is to reduce the calculated value of an employer's liabilities for accounting purposes, normally by about 5-8%. The reduction for the London Borough of Croydon is £59.98m. The adjustment is disclosed as a negative "past service cost" (i.e. past service gain) in the accounting figures. The actuaries approach is consistent with CIPFA's LAAP Bulletin 89.

24. 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

01 May 2011

Note 24 is the relevant extract from the Statement by the Consulting Actuary. The Statement is required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008, and is appended to the Pension Fund accounts.

NOTES TO THE PENSION FUND ACCOUNTS

25. EVENTS AFTER THE BALANCE SHEET DATE

The recent decline in investment values on the stock market has resulted in a decrease in our investments since 31 March. The value of our Pension Fund is 7% lower (based on 31 August valuation), equivalent to a £43m reduction in the value reported in the net asset statement. Market values continue to fluctuate on a daily basis.

26. NATURE AND EXTENT OF RISKS ARISING FROM 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. From the advice given by the Fund's advisors the following target asset allocation was determined.

Asset Class	Investment
Equities	50.00%
Private Equity	4.00%
Bonds	30.00%
Fund of Hedge Funds	4.00%
Global Tactical Asset Allocation	4.00%
Property	7.00%
Cash	1.00%
Total	100.00%

Private equity has a higher credit risk, consequently the low level target allocation to cap this risk.

Additionally the risk arises 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 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.

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 derivatives as a hedge against foreign currency exposure.

Sensitivity Analysis

A movement of 1% in the value of equities would cause a change in the asset value of the Fund of £3.3m. A 1% change in the value of bonds would have a £1.8m effect.

10. Pension Fund Auditors Report

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- Securing financial resilience; and
- Challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the 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 Audited Bodies published by the Audit Commission in March 2010.

Philip Johnstone
District Auditor
Audit Commission
First Floor
Millbank Tower
London
SW1P 4HQ
23 September 2011

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:



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	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 5.8% 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