



# Croydon Pension Scheme

ANNUAL REPORT 2008/2009

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## 1. Management & Advisers

### Croydon Council Pension Fund Governance Statement

#### **Pension Committee:**

As an administering pension authority the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pensions Committee. Its terms of reference are to deal with all matters relating to the investment and management/administration of the Council Pension Fund. The Pension Committee is made up of six voting Members of the Council, three non-voting pensioner representatives and a non-voting employee representative.

#### **Councillors during the 2009/10 Municipal Year:**

Councillors Dudley Mead, Yvette Hopley, Simon Hall, Derek Millard, Raj Rajendran and Brian Udell

(Chairman) – Councillor Dudley Mead

(Vice Chairman) – Councillor Yvette Hopley

#### **Current Councillors in 2008/09 Municipal Year:**

Councillors Dudley Mead, Yvette Hopley, Simon Hall, Derek Millard Raj Rajendran and Brian Udell

(Chairman) – Councillor Dudley Mead

(Vice Chairman) – Councillor Yvette Hopley

#### **Non-voting members in 2008/09 Municipal Year:**

Staff Representative – Isa Makumbi

Pensioners' Representatives – Gilli Driver and John Thompson

Co-Optee Pensioners' Representatives - Mike Brakes

In addition, the Committee is supported by officers and external advisers.

The Pension Committee sets the long term objectives and strategy for the Fund. It also oversees all matters relating to investment strategy of the Fund including the appointment of managers, advisers and custodians and general related issues such as the Actuarial Valuation.

The Pension Committee meetings are held on at least a quarterly basis, the agenda and minutes from previous meetings are circulated to the Members of the Pension Committee within 5 days of the next meeting. During the financial year Extra Ordinary meetings take place for the Pension Committee in connection with the change in the asset allocation.

The agendas and minutes of the Pension Committee meetings are available on the Council's website. A Member Training Report is available on the Council's website.

**Administering Authority:**

Croydon Council  
Resources & Customer Services  
Pensions Section  
6<sup>th</sup> Floor  
Taberner House  
Park Lane  
Croydon, CR9 1JL

Nathan Elvery  
Executive Director of Resources & Customer Services

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**External Advisers to the Pension Committee:**

Robert Howie – Mercer Investment Consulting  
Emily Houghton – Mercer Investment Consulting  
Valentine Furniss – Independent Adviser

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**Actuary:**

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

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**Custodian of Assets:**

Bank of New York Mellon  
160 Queen Victoria Street  
London EC4V 4LA

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**Auditor:**

Audit Commission (External), Deloitte (Internal)

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**Bank:**

Royal Bank of Scotland

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**Legal Advisors:**

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

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**AVC Provider:**

Prudential  
Laurence Pountney Hill  
London EC4R 0HH

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**National Association of Pension Funds (NAPF):**

Membership number : 3547

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## Foreword

This is the third year that I have had the privilege of accepting the position of Chairman of the Pensions Committee. Together with my fellow Councillors and staff and pensioners' representatives – all of whom are listed on the previous page - we seek to provide guidance and direction to the Croydon Council's Pension Fund. In this, we are ably assisted both by external advisers as well as dedicated Council Officers. As Chairman and on behalf of fund members, I should like to express my thanks them all for their continuing involvement.



A Councillor since 1980 and a Chartered Certified Accountant by profession, I have always taken active interest in the management of the Pension Fund. Hopefully my years of experience in both roles allow me to bring an insight to Pension Committee that complements the knowledge and dedication of all the other members.

The last year has proved as very busy and eventful one. Key issues considered at our four meetings during 2008/09 included: the on-going review of future investment strategies and the impact of the turmoil in the financial markets and fund returns over the last twelve months. The markets are seeing small signs of recovery that the Pension Committee will continue to monitor carefully.

Our fourth Pensions Open Day was held during the year to which all members of the Fund were invited. Councillor Yvette Hopley and I hosted the event whose major theme was the Local Government Pension Scheme benefits package. Held in the Arnhem Gallery at Fairfield Halls, we were particularly fortunate to have Robert Holloway, Head of Workforce Pay at the Department for Communities and Local Government as the guest speaker. Surgeries held at this well attended day also allowed scheme members to ask individual personal questions of the pension administration team.

Many of the questions related the reforms to the Scheme introduced from 1 April 2008 and intended to members more flexibility in their retirement through a revised benefits package. Whilst the normal retirement age was retained at 65, the scheme's accrual rate was improved from 1/80ths to 1/60ths alongside new tiered ill-health provisions.

A good quality occupational pension scheme is a key part of the total remuneration package of public sector employees. As Chairman of the Pension Committee I am wholly committed, with my colleagues, to ensure that the Fund maintains excellent benefits at a realistic cost to both employee and employer.

Finally I look forward to the year ahead and working with members of the Pension Committee to ensure that the Fund continues to fully meet the need of its members and pensioners.

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

## Introduction

The following pages provide you with an overview of Scheme benefits that may be received and how we have invested your contributions and other Pension Fund income during 2008/2009.

If, after reading this booklet, you would like further information regarding the investments of the Fund, please contact the Pensions and Treasury team who will be pleased to answer any questions you may have.

## Security of Funds

The Local Government Pension Scheme is a scheme regulated by Act of Parliament. The benefits payable to members are, therefore, not dependent directly on the investment performance of the Fund. However, the Council has to make good any deficit that might arise in the Fund at regular intervals.

## Socially Responsible Investment and Corporate Governance

Socially responsible investment is investment where moral, social and ethical considerations are taken into account. Corporate governance is the system by which companies are run and the means by which they are responsive to their shareholders, employees and other stakeholders. The Council's policy is outlined within the Statement of Investment Principles.

The Council is at the forefront of the developments within the UK pensions industry to persuade companies to pursue socially responsible policies consistent with good performance. The Pension Committee has adopted a corporate governance voting policy, in accordance with which the UK investment managers are required to vote at company meetings. Most of the votes relate to best practice in the conduct of company management but separate votes are also cast in connection with companies' stances on environmental issues.

There is no doubt that pressure to take account of socially responsible issues in the investment process will increase. The Council, whilst recognising as paramount its responsibilities to its members and taxpayers, will play its part in taking the matter forward.

## Membership 2008/2009

During the year the Scheme's total membership has grown from 17,256 to 18,036. Changes in membership during the year were as follows:

### Employees

Number at 31 March 2008		<b>6,591</b>
Add	Employees joining during year	+925
Less	Members leaving during year:	
	Normal retirements (including redundancies etc)	-197
	Ill-health retirements	-6
	Deaths in service	-4
	Refunds of contributions	-16
	Deferred pensions	-690
Number at 31 March 2009		<b>6,603</b>

### Pensioners

Number at 31 March 2008		<b>5,365</b>
Add	New pensioners during year:	
	Normal retirements (including redundancies etc)	+142
	Ill-health retirements	+0
	Dependants' pensions	+50
	Deferred pensions becoming payable	+294
Less	Deaths/dependants ceasing to be eligible	-45
Number at 31 March 2009		<b>5,514</b>

### Deferred Pensioners

Number at 31 March 2008		<b>5,151</b>
Add	New deferred pensioners during year	+690
Less	Deferred benefits becoming payable	-95
	Back to active status	-11
	Deaths	-8
Number at 31 March 2009		<b>5,727</b>

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<b>Total Membership at 31 March 2009</b>	<b>18,036</b>
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**Please note:** these figures above differ from the membership figures shown in the Annual Statement of accounts below. This is due, in part, to timing differences but largely due to an ongoing exercise to review the records held. This difference does not have any affect on the calculation of the cost on the scheme. In the same way there has been a minor adjustment to the closing balance from the 2007/08 accounts.

## National Local Government Pension Scheme Web Site

The address is [www.lgps.org.uk](http://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

## 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.

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



# Statement Of Investment Principles

## 1 Introduction

The elected members of Croydon Council, acting through the Pension Committee, have drawn up this Statement of Investment Principles to comply with The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1998 as amended by the Local Government Pension Scheme (Management and Investment of Funds), as they relate to the Pensions Act 1995 in its requirements of occupational pension schemes and the London Borough of Croydon Pension Fund (“the Fund”). The Statement has also been amended to reflect the Local Government Pension Scheme (Amendment) (No 2) Regulations (2005) to provide the statutory framework from which the administering authority is required to prepare a Governance Policy Statement (GPS). Accordingly, the GPS sets out the Fund’s governance arrangements, including representation and delegations. The Council has consulted suitably qualified persons and has obtained written advice from its investment consultant, Mercer Investment Consulting. Overall investment policy falls into two parts: -

- *The strategic management of the assets is the responsibility of the Pension Committee who delegate many of their functions to the officers and act on the advice of the investment consultant and the independent Fund adviser.*
  
- *The remaining elements of policy are part of the day-to-day management of the assets which are delegated to professional investment managers as described in Section 3.*

## 2 Investment Objectives, Strategy and Risk

### 2.1 Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed, the Pension Committee has adopted the following objectives: -

- *Overall investment policy is to maximise the return on investments within the parameters of the Fund.*

- *Investment policy is guided by an overall objective of achieving, over the long term, a return on investments to meet all the Fund liabilities, after taking into account employer and employee contributions, which is consistent with the longterm assumptions used by the Actuary in determining the funding of the Fund.*
- *The objective is to achieve a return in line with the mandates (see paragraph 3.1).*
- *Promote a Socially Responsible Investment Strategy consistent with maximising the return on the Fund.*

## 2.2 Investment Strategy

The Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary's 25 year recovery plan, the investment allocation strategy should be revised as shown in the table: -

<b>Assets</b>	
	2009/10 (%)
UK and Overseas Listed Equities	50
Bonds	30
Property	7
Funds of Hedge Funds	4
Private Equity	4
Global Tactical Asset Allocations	4
Cash	1
<b>Total</b>	<b>100</b>

The Pension Committee agreed to invest £40million in property of which £8million has been invested with Henderson Global Investor Limited in a UK property fund. This took place in April 2008.

In order for the Fund's exposure to pooled vehicles and unit trust schemes to be brought more in line with the new target allocation, the Pension Committee, having taken appropriate advice, has decided that the increased limits for units of shares of the investments, subject to the trusts of unit trust schemes managed by any one body, should be adopted. This is for an unlimited period of time, is consistent with the Fund's Investment Strategy and the increase complies with the Local Government Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 and the Local Government Pension Scheme (Amendment) (No 2) Regulations 2005 and therefore the Pension Committee formally agreed the following: -

- All investments in units or other shares of the investment, subject to the trusts of unit trust schemes managed by one body, to a maximum of 35% (of the total fund value)
- All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body to a maximum of 35% (of the total fund value)
- All investments in units or other shares of the investments, subject to the trusts of unit trust schemes, and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body, to a maximum of 35% (of the total fund value)
- Any single insurance contract to a maximum of 35% (of the total fund value)

Investment strategy will continue to be kept under constant review.

### 2.3 Risk

There are various risks to which any pension scheme is exposed. The Pension Committee has considered the following risks: -

- The primary risk is that arising through a mismatch between the Fund's assets and its liabilities.
- The risk of deterioration in the Fund's ongoing funding level.

- The risk of a shortfall of assets, relative to the liabilities as determined if the Fund were to be wound up.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return required to meet accrued and future liabilities as quantified by the Actuary to the Fund.
- The risk of the active investment managers underperforming their benchmarks.

The potential risk concerning underperformance against the benchmark is relatively low given that the majority of the Fund's holdings are in passive tracker funds.

### 3 Day to Day Management of the Assets

#### 3.1 Main Assets

The Fund's asset allocation as at 31st March 2009 was as follows: -

Investment Manager	Investment Mandate	% of Fund
UBS Global Asset Management (UK) Limited	Passive UK Equities (segregated portfolio)	50.94
UBS Global Asset Management (UK) Limited	Passive UK Bonds (pooled portfolio)	6.65
UBS Global Asset Management (UK) Limited	Passive O'seas Equities (fixed weight, pooled funds)	26.52
Pantheon Ventures Limited	Private Overseas Equities (limited partnership)	3.06
Henderson Global Investors Limited	Active Property Fund	1.24
London Borough of Croydon Cash Management	Cash LIBID 7 day notice deposit account	7.99
Fund Managers Cash Management	Maximising short term returns prior to the investment of funds	2.21
Non Cash Current Assets	Not applicable	1.39
<b>Total</b>		<b>100</b>

As at 31st March 2009 all equities (except those held with Pantheon Ventures Limited) were in passive funds thereby reducing the risk of investment manager underperformance. Assets are distributed with the aim of meeting the target allocation of the Fund as set out in paragraph 2.2 having regard to maximising investment returns and the day-to-day liquidity requirements of the Fund.

#### 3.2 Asset Allocation Guidelines and Investment Performance Benchmarks

The main investment managers have been set the following benchmarks: -

#### UBS Global Asset Management (UK) Ltd

Assets	Weighting %	Benchmark	Traking Error
North America	34	FTSE AW USA Index	Plus or Minus 0.25%
Europe ex UK	34	FTSE Europe (ex UK) Index Developed Series Index	Plus or Minus 0.5%
Japan	14	FTSE AW Japan Index	Plus or Minus 0.25%
Pacific ex Japan	18	FTSE AW Pacific (ex Japan) Index Developed Series Index	Plus or Minus 0.5%

#### Pantheon Ventures Limited

Assets	Weighting %	Benchmark	Traking Error
Private Equity	100	To out-perform the All-Share Index in the long term	Not applicable

#### Henderson Global Investors Limited

Assets	Weighting %	Benchmark	Traking Error
UK Property Fund	100	Investment Property as funds invested Databank (IPD) directly in property All Properties Index	Not applicable

### 3.3 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.

### 3.4 Monitoring the Investment Managers

Performance of the investment managers is measured by the World Markets (WM) Company. The Council's officers meet the investment managers regularly to review their actions together with the reasons for investment performance. Managers are invited to attend the Pension Committee meetings on a regular basis. Mercer Investment Consulting and the Fund's independent investment adviser, are retained to assist the Fund in fulfilling its responsibility for monitoring the investment managers. The Pension Committee meets on a quarterly basis to review and monitor performance with the active investment managers attending when required; the officers and advisers also meet with the investment managers on a regular basis to review progress and performance.

### 3.5 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 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 investments should be realised for cash.

### 3.6 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 six 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 the 2008/09 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.

### 3.7 Additional Voluntary Contributions

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.

## 4. 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. J P Morgan acts as the independent custodian for the overseas equities held by UBS Global Asset Management Limited. The other holdings of the Fund are in pooled arrangements where the custodian is determined by the investment manager.

## 5 Socially Responsible Investment and Corporate Governance

The Council's Pension Fund recognises the need for a policy of socially responsible investment which is taken into account, where appropriate, when the Fund revises its investment holdings to take account of the new asset allocation as detailed in paragraph 2.2 above.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), whose major aim is to inform LAPFF members of corporate governance issues within the companies that each LAPFF member might invest and so develop recommended common voting strategies on such matters as:-

- Board structures
- Remuneration
- Shareholder rights
- Separation of audit and non-audit work
- Environmental issues (particularly regarding sustainability and greenhouse gas emissions).

LAPFF also uses its influence to engage with and, where necessary, challenge companies on corporate governance matters. It is the view of officers and the advisers that this is an

extremely cost effective way of fulfilling part of our commitment to “activism” which is one of the ten principles outlined in the “Statement of Compliance – Myners’ Investment Principles” which are fully described in a separate section in the Annual Report. Allied to shareholder activism is the need to ensure that the Fund has a comprehensive voting policy which reflects the socially responsible investment issues supported by the Pension Committee. To this end the Pension Committee uses Pension Investment Research Consultants Limited (PIRC) to vote on the Fund’s behalf in respect of the FTSE 350 holdings according to PIRC voting guidelines. It is the view of officers that membership of PIRC has resulted in the Croydon Council Pension Fund’s voting policy being probably one of the most comprehensive of all the Local Authority Pension Funds in the country. The Council’s Pension Fund has determined that dialogue (through LAPFF) and a proactive engagement (through PIRC) is the most effective way of influencing companies in relation to social, environmental and business policies whilst at the same time achieving financial returns compatible with the Fund’s longer term financial objectives.

The Council’s Pension Fund requires the investment managers to vote on shares attached to their holdings whenever possible. Guidance as to voting policy, which reflects the latest approach to corporate governance issues, is given to the managers. This is reviewed on a regular basis.

## **6 Expected Return on Investments**

The Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary’s 25 year recovery plan, the investment allocation strategy should be revised as shown in the table in paragraph 2.2 of this statement. The asset allocation of the Fund will, however, be kept under constant review and may be changed from time to time. Any major changes will be reflected in an updated version of this statement.

## **7 Principles for Investment Decision-Making**

The Annual Report under a section titled “Statement of Compliance – Myners’ Investment Principles” details the extent of the Fund’s compliance with the ten Myners’ principles for investment decision making. Within these principles the term “Trustee” is used from time to time. When considering advice and determining investment policy, the Pension Committee are effectively acting as Trustees. As such, they have responsibilities additional to those carried out as elected members of the Council. Their duties as “Trustees” are to manage



the Fund in accordance with the Local Government Pension regulations and to do so prudently and impartially.

Typically, Members discharge their duty by ensuring that they have a systematic and clear way of agreeing their investment policy with the managers and advisers they employ.

## **8 Compliance with this Statement**

The Council's Pension Fund will monitor compliance with this statement annually.

## **9 Review of this Statement**

The Council's Pension Fund will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and the attitude to risk which the Pension Committee judges to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years to coincide with the Fund's full triennial actuarial valuation. Any such review will be based on written expert advice.

## Statement of Compliance – Myners’ Investment Principles

Principle 1: Effective Decision-Making					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.	All investment decisions are taken either by the Pension Committee, which is responsible for the ‘Management of the Council’s Pension Fund’, or by the Executive Director Resources and Customer Services under his delegated powers. In addition to the Executive Director of Resources and Customer Services, the Pension Committee is advised by experienced Council officers and external advisers (one being appointed by Mercer Investment Consulting and an independent advisor, Valentine Furniss). All voting members of the Pension Committee are experienced Councillors with a wide range of expertise including investment and accountancy. In addition to the Councillors, the Pension Committee includes representatives of the staff and pensioners. Collectively, the Pension Committee has all the skills necessary to properly carry out their investment responsibilities. Councillors, officers and advisers are given training opportunities, to ensure that their expertise remains up to date. Several members of the Pension Committee have attended specific training seminars.	Training will continue to be offered to all members of the Pension Committee. Training requirements will be assessed during the year.
✓			Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.	Cash is managed in-house. All the other assets of the fund are managed by external specialist managers and current staffing levels are sufficient in number and qualifications to support the Pension Committee in their investment responsibilities. The voting members of the Pension Committee are in receipt of agreed allowances for Councillors.	
✓			It is good practice for trustee boards to have an investment Pension Committee to provide appropriate focus.	The London Borough of Croydon has appointed a Pension Committee whose terms of reference are the “Management of the Council’s Pension Fund”. Whilst considering some benefits and administration issues, the Pension Committee spends almost all its time considering investment matters. The Pension Committee meets 4 times per year (plus any additional times when required) and the structure and processes are appropriate for carrying out their role effectively.	
✓			Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively.	All voting members of the Pension Committee are experienced Councillors with a wide range of expertise including investment, accountancy, actuarial and administration of benefits. Collectively, the Pension Committee has all the skills necessary to carry out their investment responsibilities properly with training.	
✓			They should draw up a forward-looking business plan.	There has always existed a forward-looking Business Plan as regards monitoring performance and the management of the Pension Fund. A three year rolling business plan is agreed on an annual basis.	

<b>Principle 2: Clear Objectives</b>																							
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future																		
Fully	Part	Not																					
✓			Trustees should set out an overall investment objective for the Fund that:	See section 2 of the Statement of Investment Principles (SIP).																			
✓			Represents their best judgement of what is necessary to meet the Fund's liabilities, given their understanding of the contributions likely to be received from employer(s) and employees; and	See section 2.1 of the SIP.																			
✓			Takes account of their attitude to risk, specifically their willingness to accept under performance due to market conditions.	See sections 2 and 3 of the SIP.																			
✓			Objectives for the overall Fund should not be expressed in terms which have no relationship to the Fund's liabilities, such as performance relative to other Pension Funds, or to a market index.	See sections 2 and 3 of the SIP.  The Fund's objectives are reviewed annually, during the review of the Statement of Investment Principles.																			
<b>Principle 3: Focus on Asset Allocation</b>																							
✓			Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the Fund's investment objective.	At both the Pension Committee and the Advisers/ Officers level, strategic asset allocation is discussed, either in the context of performance monitoring or arising from a specific Officer report. The full range of investment opportunities is considered.	Continue to consider and review asset allocation policy.																		
✓			Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the Fund's own characteristics, not the average allocation of other Funds	The Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary's 25 year recovery plan, the investment allocation strategy should be revised as below: - <table border="0"> <tr> <td>Asset Category</td> <td style="text-align: right;">%</td> </tr> <tr> <td>UK &amp; Overseas Listed Equities</td> <td style="text-align: right;">50</td> </tr> <tr> <td>Bonds</td> <td style="text-align: right;">30</td> </tr> <tr> <td>Property</td> <td style="text-align: right;">7</td> </tr> <tr> <td>Fund of Hedge Funds</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Private Equity</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Active Global Equity Portfolio</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">100</td> </tr> </table>	Asset Category	%	UK & Overseas Listed Equities	50	Bonds	30	Property	7	Fund of Hedge Funds	4	Private Equity	4	Active Global Equity Portfolio	4	Cash	1	Total	100	Continue to consider and review asset allocation policy.  The review of all asset types will continue.
Asset Category	%																						
UK & Overseas Listed Equities	50																						
Bonds	30																						
Property	7																						
Fund of Hedge Funds	4																						
Private Equity	4																						
Active Global Equity Portfolio	4																						
Cash	1																						
Total	100																						

<b>Principle 4: Expert Advice</b>					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			Contracts for actuarial services and investment advice should be opened to separate competition.	The Council appointed Mercer Limited to provide both actuarial services and investment advice. The two services were tendered as a package but Officers and Members were satisfied that the services offered separately were individually the best available.	Officers will regularly monitor investment adviser fee levels to ensure that they are paid at market rates.
✓			The Fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.	The services are now provided by two totally separate specialist teams of Mercer Limited – Mercer Investment Consulting and Mercer Human Resource Consulting. Officers are satisfied that there is no conflict of interest between the providers of the two services. The Fund pays sufficient fees to attract interest from all the major actuarial/investment practices and to ensure that a high quality service continues to be provided. In addition, the Council has appointed Mr Furniss as an independent adviser. Mr Furniss has a wealth of experience in the investment field and advises several local authority pension funds.	
<b>Principle 5: Explicit Mandates</b>					
✓			Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on: -	Guidelines within the investment management agreements include investment objectives, restrictions and performance measurement.	The Fund is currently considering increasing the proportion of the Fund's investments in active managed funds and, as part of that review, will ensure that the active investment managers' performance is regularly monitored at each quarterly meeting of the Pension Committee.
✓			An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the Fund's aggregate objective and risk tolerances;	These are included in investment management agreements and are consistent with the Fund's aggregate objectives and risk tolerances.	
✓			The manager's approach in attempting to achieve the objective; and	Assessed at tender stage and reviewed as appropriate.	
✓			Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for under performance alone	Performance evaluation on active portfolios is based on a long term basis reflecting the volatility of equities. Managers are given sufficient time to meet the required performance standards.	
✓			The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the Fund.	Permissible financial instruments may be used where the instrument is permitted by government regulations and on the advice of the Fund's investment advisers.	

<b>Principle 5: continued</b>					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the Fund's other objectives.	UBS Global Asset Management (UK) Limited (UBS) has provided Level One disclosures (a statement of transaction practices). UBS also provide Level Two disclosures (client specific data).	The Council's voting policy will continue to be reviewed to ensure that current developments in corporate governance are considered.
✓			Trustees should not without good reason permit "soft commissions" to be paid in respect of their Fund's transactions.	No "soft commissions" are paid.	
<b>Principle 6: Activism</b>					
✓			The mandate and trust deed should incorporate the principle of the US Department of Labour interpretative Bulletin on activism.	The Council's external Fund Managers have been advised of the Pension Committee's revised voting policy and are expected to adhere to it. They are also expected to follow the principle of the Bulletin, which has now, in effect been superseded by the "The Responsibilities of Institutional Shareholders in Action". UBS have provided Statements of their Corporate Governance and Voting Policies. Most UK shares are voted on. In respect of overseas equities, in most instances UBS vote on the Pension Fund's investments in accordance with their voting policies	The Council's voting policy will continue to be reviewed to ensure that current developments in corporate governance are considered.
✓			Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.	The Council's policy on Social Responsible investment is identified in paragraph 5 of the SIP. The voting guidelines were reviewed during the year to keep in line with current corporate governance issues. The UK Fund Manager for the tracker fund is required to provide details of voting on a quarterly basis. Hermes and UBS confirm that they act in accordance with the requirements of "The Responsibilities of Institutional Shareholders in Action" *.	
<b>Principle 7: Appropriate Benchmarks</b>					
✓			Trustees should: - Explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;  If setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;	Full consideration has been given to index benchmarks and their impact on investment strategies. The benefits to be gained from active or passive management are regularly considered and, where active management has been chosen, targets and risk controls have been set to reflect the potential to achieve higher returns. This is currently being done through private equity funds and the UK property fund. The agreed benchmarks are stated in Section 3 of the Statement of Investment Principles	The Fund's investment strategy has been reviewed and the Pension Committee will continue to implement the revised asset allocations (see the table under Principle 3).

<b>Principle 7: continued</b>					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			<p>Consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and</p> <p>Where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies.</p>	<p>Where active management has been chosen, targets and risk controls have been set to reflect the potential to achieve higher returns. This is currently being done through private equity funds and the UK property fund.</p>	<p>As part of the review of asset allocation, the Pension Committee is moving towards active management of a proportion of the UK and overseas equities which are currently Passively managed. In addition, there are plans to further increase the active management of the Fund by increasing the investment in the UK property fund and the introduction of an Active Global Equity Portfolio Investment.</p>
<b>Principle 8: Performance Measurement</b>					
	✓		<p>Trustees should arrange for measurement of the performance of the Fund and make formal assessment of their own procedures and decisions as trustees.</p>	<p>The Fund's managers provide full reports on performance on a quarterly basis. The investment managers' performance and the Fund's overall performance are measured quarterly and annually by the World Markets (WM) Company and reported on a quarterly basis to the Pension Committee.</p>	<p>A further review will be undertaken following the implementation of the revised assets allocation strategy</p>
		✓	<p>They should also arrange for a formal assessment of performance and decision making delegated to advisers and managers.</p>	<p>An assessment was formerly undertaken in 2004/05 and a detailed report was submitted to the Pension Committee.</p>	
<b>Principle 9: Transparency</b>					
✓			<p>A strengthened Statement of Investment Principles should set out: -</p> <p>Who is taking which decisions and why this structure has been selected;</p>	<p>Please see the Statement of Investment Principles.</p>	<p>The Fund's Statement of Investment Principles is reviewed on an annual basis and amended with any significant changes.</p>
✓			<p>The Fund's investment objective;</p> <p>The Fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;</p>		
✓			<p>The mandates given to all advisers and managers; and The nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected</p>		

<b>Principle 10: Regular Reporting</b>					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of these Funds, including an explanation of why the Fund has chosen to depart from any of these principles.	The Statement of Investment Principles, key performance information and comments on strategy are included in the Annual Scheme Report, a copy of which is sent to all Scheme members. It is also available on the Council's website.	

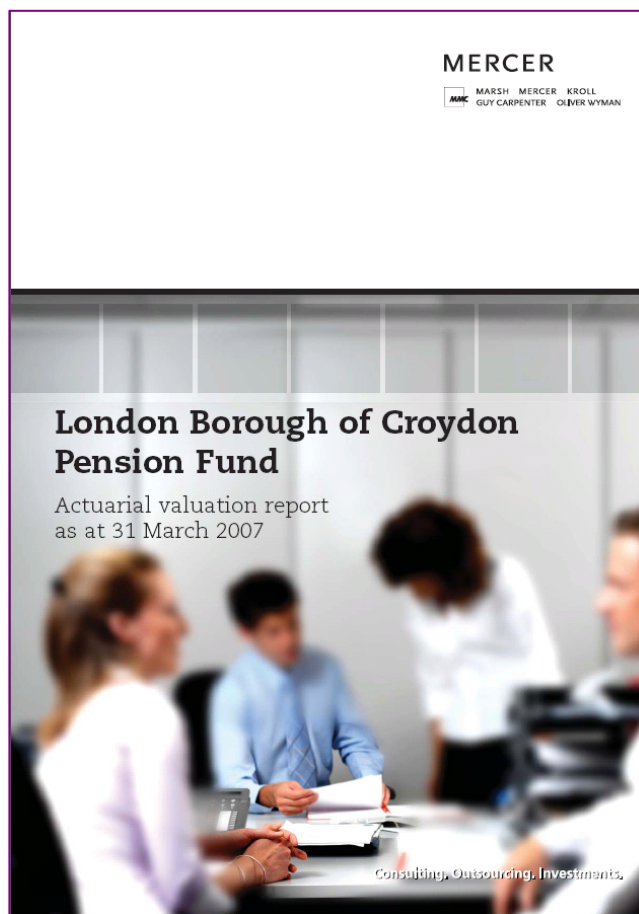
\* "The Responsibilities of Institutional Shareholders and Agents – Statement of Principles" has been drawn up by the Institutional Shareholders' Committee (members – ABI, NAPF and IMA) to set out best practice for institutional shareholders and/ or agents to identify their responsibilities in respect of investee companies. The Fund Managers appointed by the Council have been

## Actuarial Valuation

### What is an Actuarial Valuation?

It is a professional assessment undertaken by the Actuary to determine whether the Fund's assets are likely to be sufficient to meet the accrued benefits. The LGPS regulations require that the Fund obtains an actuarial valuation of assets and liabilities every three years. The last valuation was in 2007. Therefore, revised contribution rates applied from 1 April 2008, with the next valuation being carried out as at 31 March 2010, with contribution rates applicable from 1 April 2011.

A copy of the last valuation can be found on the Council's website.



### Funding Strategy Statement (FSS)

The LGPS regulations require the Fund to have in place an FSS. After consultation with employers, the Fund has now achieved this. The funding of current and future pension liabilities needs to have regard for a clear and reasonable investment strategy that, taking into account the investment risks, sets strategy that aims to meet the actuarial assumptions and funding objectives. The Fund engages consultants to assist with this exercise every three years to link with the valuation exercise. From 1 April 2008, revised rates of contribution are effective, based on the results of the 2007 actuarial valuation.



## Fund Investment Commentary & Performance

### General

During 2008/09, local authority pension funds there was an average decline in value of 21.6%. This was below CPI inflation and average earnings growth of 3.01% and 1.9% respectively.

2008/09 was a challenging year for equities in the major markets including returns of -29.5% in the UK, -31.1% in Europe, -10.6% in Japan and -14.0% in North America. Equity returns were significantly below the UK bonds positive return of 10.3%.

### 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, but at a much lowered level of risk of volatility of returns. This strategy is set out in detail within the Statement of Investment Principles, above.

### Performance

The Fund's performance is compared with the Council's own customised benchmarks. It is also compared to the average return from 87 local authority pension funds with a total Market Value of £96,636m (£123,212m during 2007/08).

The negative return for local authorities as a whole of 19.9%, which compares with the negative return of the Council's Fund of 22.0%. This was due to the Croydon Pension Fund having a greater percentage of equity investments than the average local authority pension fund.

The significant fall in the value of equities in 2001 to 2003 and greater life expectancy of pensioners, together with improvement in benefits provided by the Local Government Pension Scheme (LGPS), had a major impact on the funding position of the Fund, such that the Actuarial Valuation as at 31st March 2004 showed that the funding level was 57%.

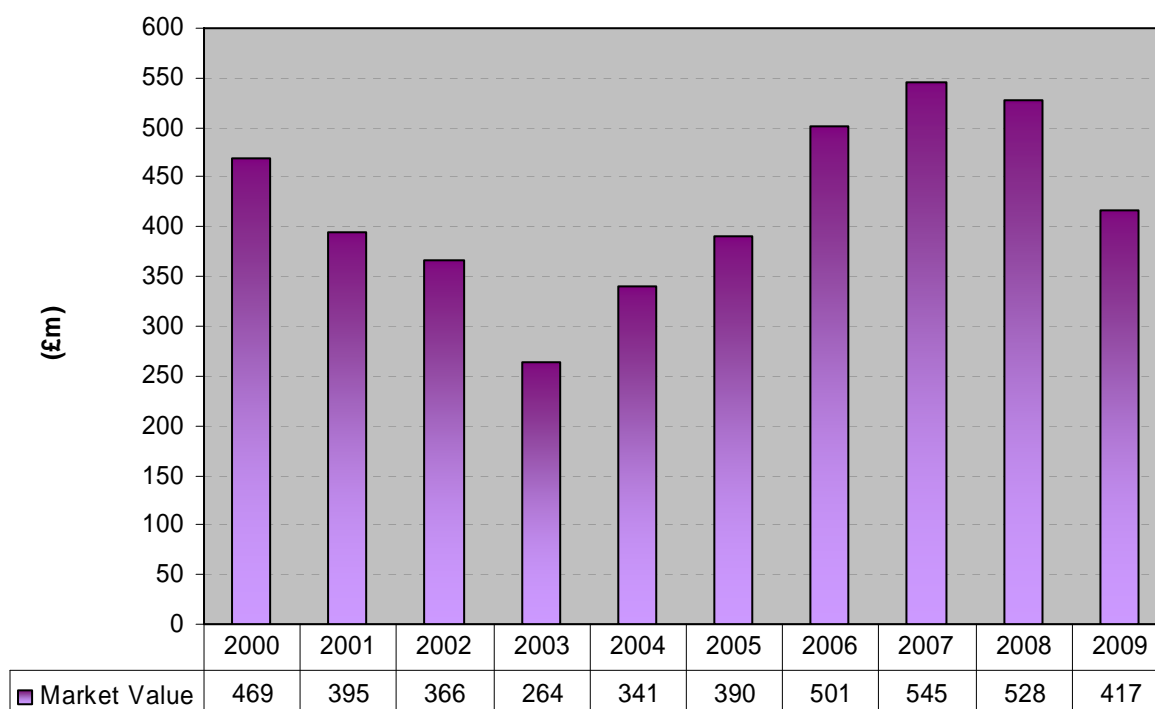
However, since 2004, the funding position has improved considerably and the Actuarial Valuation as at 31st March 2007 showed that despite the continuing increase in longevity of pensioners and the improved benefits under the new look LGPS, the funding level had still increased to 68%.

## Income and Expenditure

	2008/09 £000s	2007/08 £000s
<b>Income – Contributions Receivable</b>		
Contributions from Employers	27,841	23,813
Contributions from Employees	9,206	7,761
Transfer Values	5,697	4,742
<b>TOTAL INCOME</b>	<b>42,744</b>	<b>36,316</b>
<b>Expenditure – Pensions Benefits</b>		
<i>Benefits Payable</i>		
Pensions	22,908	22,207
Lump Sums	7,302	6,313
<i>Payments to and on account of leavers</i>		
Refund of Contributions	4	9
Transfers Values Paid	5,834	3,553
Pensions Administration and other expenses	1,059	1,004
<b>TOTAL EXPENDITURE</b>	<b>37,107</b>	<b>33,086</b>
Net additions from dealings with members	5,637	3,230
<b>Returns on Investments</b>		
Investment Income	12,691	13,978
Net Losses/Gains on currency revaluations	15	9
Change in market value (Realised and Unrealised)	(128,244)	(33,737)
Investment Management Expenses	(674)	(514)
<b>Net Returns on Investments</b>	<b>(116,212)</b>	<b>(20,264)</b>
<b>Net increase in the Fund during the year</b>	<b>(110,575)</b>	<b>(17,034)</b>
Net Assets at the start of the year	527,619	544,653
<b>Net Assets at the end of the year</b>	<b>417,044</b>	<b>527,619</b>

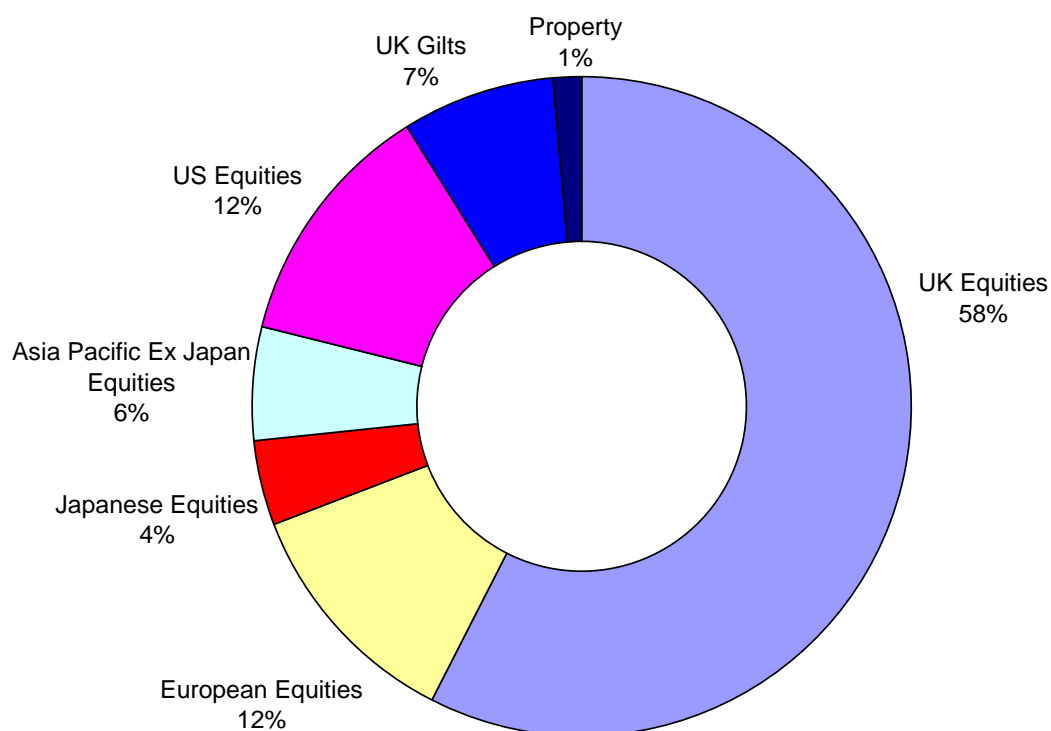
## Movement of Fund

The net assets of the Fund at 31 March 2009 were £417 million compared with £469 million at 31 March 2000. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2008/09 £m	%
Market Value of Investments	376.4	90.3%
Add Net Current Assets	40.6	9.7%
<b>Total at the end of the year</b>	<b>417.0</b>	<b>100.0</b>

## Investments



Investments	2008/09 £000s	% of Investments
Investments:		
UK Equities	216,879	57.6%
European Equities	43,624	11.6%
Japanese Equities	15,677	4.2%
Asia Pacific Ex Japan Equities	21,287	5.7%
US Equities	45,363	12.1%
UK Gilts	28,325	7.5%
Property	5,284	1.4%
<b>Total at the end of the year</b>	<b>376,438</b>	<b>100.0</b>

## Statistics 2008/2009

Returns	Croydon Fund	Average Local Authority
1 year (% per year)	-22.0	-19.9
3 years (% per year)	-6.5	-5.9
5 years (% per year)	3.5	3.1
10 years (% per year)	0.6	2.0

Markets Spread:	Croydon Fund
UK	-29.3
North America	-14.0
Europe	-31.1
Japan	-10.6
Pacific	-23.1
UK Government Bonds	10.3
Index Linked	-1.3
Cash/Other	3.6
Property	-25.5

Pension Fund Asset Distribution:	Croydon Fund	Average Local Authority
Overseas Equities	30%	31%
Bonds	-	
Indexed Linked	-	6%
Property	1%	7%
Cash/Other	10%	11%
Gilts	7%	14%
UK Equities	52%	31%

## Top 25 UK Holdings

	Market Value At 31 March 2009	% of Total UK Equity Investment
BP	17,611	8.12%
VODAFONE GROUP	12,785	5.90%
GLAXOSMITHKLINE	11,321	5.22%
ROYAL DUTCH SHELL PLC (DUTCH)	10,476	4.83%
HSBC	9,505	4.38%
ROYAL DUTCH SHELL (UK)	8,815	4.06%
BG GROUP	7,062	3.26%
TESCO	5,185	2.39%
DIAGEO	3,958	1.83%
NATIONAL GRID O	2,616	1.21%
BAE SYSTEMS	2,358	1.09%
CENTRICA	2,301	1.06%
BARCLAYS	2,256	1.04%
PRUDENTIAL	1,684	0.78%
MORRISON	1,354	0.62%
LLOYDS BANKING GROUP PLC	1,283	0.59%
BT GROUP	1,213	0.56%
AVIVA	1,143	0.53%
ROYAL BANK OF SCOTLAND	983	0.45%
RSA INSURANCE GROUP PLC	868	0.40%
CABLE & WIRELESS	721	0.33%
OLD MUTUAL PLC	561	0.26%
LEGAL & GENERAL GP	506	0.23%
ITV	146	0.07%
COOKSON GROUP	79	0.04%
	106,793	49.25%

## Net Assets Statement

At 31 <sup>st</sup> March 2009	2008/09 £000s	2007/08 £000s
<b>Investments:</b>		
UK equities	216,858	311,728
Overseas equities (including unquoted limited partnerships)	125,950	154,688
UK gilts	28,325	25,680
Cash deposits/ Property	- 5,284	5,000 -
<b>Total</b>	<b>367,438</b>	<b>497,096</b>
<b>Current Assets:</b>		
Debtors	5,935	5,787
Bank balances	43,417	27,019
<b>Total Assets</b>	<b>425,790</b>	<b>529,902</b>
<b>Current liabilities:</b>		
Creditors	(8,746)	(2,283)
<b>Market value of Fund</b>	<b>417,044</b>	<b>527,619</b>

A full set of the audited pension fund accounts are available on request from the Pensions and Treasury Management Section at Croydon Council on 020 8760 5768 (extn 62892).



## Pension Fund Accounts 2008/09

### **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 to its employees who are members of the Pension Fund 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.

### **STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND**

#### **1. GENERAL PRINCIPLES**

The accounts have been prepared in accordance with the provisions of Chapter 2 (Recommended Accounting Practice) of the 2007 Pension Statement of Recommended Practice (SORP) as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2008, 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. FUND'S OPERATIONS AND MEMBERSHIP**

The Fund operates a defined benefits scheme under the Superannuation Act 1972 as amended by subsequent regulations. Its purpose is to provide pensions to all of the Council's employees with the exception of teaching staff. Also included are the employees of admitted and scheduled bodies that have gained admittance to the Fund. Until 24 March 2007, the Fund was administered by Liberata UK Limited who collected contributions and paid benefits. The pensions administration was then taken over by Croydon Council from Liberata UK Limited and dealt with in-house. Investment management is the responsibility of the Council who have delegated most of this to one major fund manager. Below is a list of the admitted and scheduled bodies contributing to the Fund:

Admitted: Age Concern, BRIT School, Cabrini Children's Society, Croydon Citizens Advice Bureau, Croydon Community Mediation, Creative Environmental Network, Oasis Academy Coulsdon, Croydon Voluntary Action, Croydon Youth Development Trust, Apetito, Fairfield (Croydon) Limited, Fusion, Harris City Academy Crystal Palace, Interserve, Harris City Academy South Norwood, R M Education and Veolia.

Scheduled:

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

#### 4. 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 by a Pay Contributions Banding as detailed below

	<b>Band Range £</b>	<b>Contribution Rate</b>
1	0-12,000	5.5%
2	12,001-14,000	5.8%
3	14,001-18,000	5.9%
4	18,001-30,000	6.5%
5	30,001-40,000	6.8%
6	40,001-75,000	7.2%
7	75,000+	7.5%

#### Manual Workers Banding - Year Commencing

1 April 2008	5.25%
1 April 2009	5.50%
1 April 2010	6.50%

For the year ended 31 March 2009 the employers' rate was 20.5% 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.

#### 5. DEBTORS AND CREDITORS

The accounts have been prepared on an accruals basis. All expenditure and income including the purchases and sales of investments and dividends due are charged or credited to the accounts during the year and any outstanding liabilities or debtors are included at the year end.

Transfer values receivable and payable at the year end that were not received by Croydon Council (acting on behalf of the Pension Fund) are not included in debtors and creditors at the year end in accordance with the accounting treatment required by the Pension SORP (Statement of Recommended Practice).

#### 6. FOREIGN CURRENCY

Investments designated in foreign currency and holdings of foreign currency are valued in sterling at the exchange rates ruling at 31 March. All transactions during the year are valued in sterling at the date of the transaction.

### STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND

#### 7. EARLY RETIREMENT COSTS DUE TO REDUNDANCY

Employees, who are members of the Local Government Pension Scheme, aged 50 or over (55 or over from 2010-11 onwards) and take early retirement due to redundancy are entitled, under the regulations, to receive their pension early based on the number of years service without any actuarial deduction. This causes a strain on the Pension Fund which can be measured as a capital cost and is recovered from the London Borough of Croydon over a period of between one and five years. The amounts recoverable are credited against pensions payable in the year that they are due.

<b>PENSION FUND ACCOUNTS</b>
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**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009**

	Note No.	2008/09 £000	2007/08 £000
<b>CONTRIBUTIONS</b>			
Employees' contributions:			
London Borough of Croydon		8,259	6,947
Scheduled bodies		436	400
Admitted bodies		511	414
Employers' contributions:			
London Borough of Croydon		25,085	21,397
Scheduled bodies		1,343	1,232
Admitted bodies		1,413	1,184
Transfer values received	17	5,697	4,742
		42,744	36,316
<b>PAYMENTS</b>			
Benefits - Pensions payable	5	22,908	22,207
- Lump sums	16	7,302	6,313
Payments to and on account of leavers - Refund of contributions		4	9
- Transfer values paid	17	5,834	3,553
Administrative expenses	14	1,059	1,004
		37,107	33,086
<b>Net additions from dealings with members</b>		5,637	3,230
<b>RETURNS ON INVESTMENTS</b>			
Investment income	10	12,691	13,978
Net losses/(gains) on currency revaluations and underwriting commissions		15	9
Change in market value of investments:			
Unrealised	2	(126,770)	(44,982)
Realised	2	(1,474)	11,245
Investment management expenses	15	(674)	(514)
<b>Net returns on investments</b>		(116,212)	(20,264)
<b>Net increase in the Fund during the year</b>		(110,575)	(17,034)
Net assets at the start of the year		527,619	544,653
<b>Net assets at the end of the year</b>		417,044	527,619

**NET ASSETS STATEMENT AS AT 31 MARCH 2009**

	Note No.	2008/09 £000	2007/08 £000
<b>Investments:</b>			
Equities	2 & 3	342,829	466,416
Bonds	2 & 3	28,325	25,680
Property	2 & 3	5,284	-
Cash Deposits	2 & 3	-	5,000
		376,438	497,096
<b>Net current assets:</b>			
Debtors	11	5,935	5,787
Cash held by			
- Custodians for the Fund Managers		9,406	5,561
- London Borough of Croydon		34,011	21,458
Creditors	12	(8,746)	(2,283)
<b>Net assets at the end of the year</b>		417,044	527,619

## 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 2007 in accordance with the Local Government Pension Scheme Regulations 1997 (as amended). The employers' contribution rates for 2008/09 are as follows:

Croydon Council (including schools' non-teaching staff) - 20.5%

Scheduled bodies - 20.5%

Admitted bodies - rates vary depending upon those determined by the Actuary.

During the previous year the actuary completed his triennial Actuarial Valuation as at 31 March 2007 which calculated the total accrued liabilities to be £808m. The market value of the Fund's assets at the valuation date was £544m. The Fund deficit was therefore £264m producing a Funding Level of 68%. This compares with a deficit of £254m and a Funding Level of 57% as at the 31 March 2004 Actuarial Valuation.

The 2007 Actuarial Valuation recommends that the deficit be spread over 25 years as from 1 April 2008 and that the employer's contribution rates for Croydon Council (including schools' non-teaching staff) and the scheduled bodies increase to 20.5% for 2008/09, 22.1% for 2009/10 and 23.2% for 2010/11 onwards. The employers' contribution rates for the admitted bodies will vary depending on 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)	5.90	6.50
Pay increases (excluding increments)	4.70	4.50
Pensions increases	2.95	2.75
Retail Price Index (RPI) price inflation	N/A	2.75

The assets of the pension fund are included in the Balance Sheet at their fair value. For the following asset classes fair value is:

quoted securities – current bid price or the last trade price depending upon the convention of the market

unquoted securities – professional estimate

unlisted securities – current bid price

property – market value.

The liabilities of the pension fund are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earning for current employees

## 2. CHANGE IN MARKET VALUE OF INVESTMENTS

	Balance Brought Forward £000	Purchases £000	Sale Proceeds £000	Unrealised Gains/ (Losses) £000	Realised Gains/ (Losses) £000	Balance Carried Forward £000
<b>Equity Investments</b>						
UK equities	311,709	34,339	(29,453)	(96,610)	(3,127)	216,858
Managed funds	141,714	9,500	(9,500)	(30,333)	1,546	112,927
UK unquoted unit trust	19	-	-	1	-	20
Foreign unquoted ltd partnerships	12,974	435	(718)	226	107	13,024
Foreign equities (see below)	-	-	-	-	-	-
	466,416	44,274	(39,671)	(126,716)	(1,474)	342,829
<b>Non Equity Investments</b>						
UK bonds	25,680	-	-	2,645	-	28,325
Property	-	7,983	-	(2,699)	-	5,284
Cash deposit	5,000	-	(5,000)	-	-	-
<b>Total Investments</b>	<b>497,096</b>	<b>52,257</b>	<b>(44,671)</b>	<b>(126,770)</b>	<b>(1,474)</b>	<b>376,438</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 3. INVESTMENTS

Investments are stated at their market values. Listed securities are stated at bid values on 31 March 2009. An analysis of the cost and market values is set out below:

cost and market values is set out below:

		2009			2008		
		Book £000	Market £000	Market %	Book £000	Market £000	Market %
UK equities	- UBS FTSE 350 Fund	233,067	216,858	58.0	231,304	311,709	82.7
Managed funds	- UBS Global Asset Management	100,798	112,927	30.0	99,251	141,714	28.5
UK unquoted unit trust	- MUST 2 (Mercury Unquoted Securities Trust)	-	21	-	-	19	-
Foreign unquoted limited partnerships	- Pantheon Ventures	8,775	13,023	3.0	8,952	12,974	2.6
<b>Total equities</b>		<b>342,640</b>	<b>342,829</b>	<b>91.0</b>	<b>339,507</b>	<b>466,416</b>	<b>93.8</b>
UK bonds	- UBS Life UK Fixed Interest Tracker Fund "A" Units	24,477	28,325	8.0	24,477	25,680	5.2
Property	- Henderson Global Investors	7,983	5,284	1.0	-	-	-
Cash deposits	- Henderson Global Investors	-	-	-	5,000	5,000	1.0
<b>Total investments</b>		<b>375,100</b>	<b>376,438</b>	<b>100.0</b>	<b>368,984</b>	<b>497,096</b>	<b>100.0</b>

The portfolio of UK equities was managed by Hermes Investment Management Limited until 31 October 2007. From 1 November 2007 this was managed by UBS Global Asset Management (UK) Limited (UBS). Until June 2006 this passively tracked the FTSE 350 (excluding tobacco) index. Since June 2006 this now passively tracks the FTSE 350 (including tobacco index). During 2005/06 the Pensions Sub-Committee decided to move from the policy of investments being 100% in equities to one of 75% in equities over a three year period with the balance being invested in bonds and property. UBS also manages unitised investments in four equity index-tracking accumulation funds comprising Asia-Pacific (excluding Japan), Europe (excluding UK), Japan, and United States and Canada. UBS Global Asset Management Limited is a company registered in the UK. Pantheon Ventures manage a private equity fund of funds relating to Europe, Asia and USA holdings (see also note 7 below). As at 31 March 2009 £14.0m has been advanced to Henderson Global Investors Limited with the intention that this is invested in UK property.

At the close of the accounting period 2008/2009 the UK economy was experiencing its fourth consecutive quarter of negative GDP growth and the global economy was in recession. The impact of this is reflected in the valuation of the Pension Fund's assets. Since this date the world's exchanges have recorded an increase in the value of most shares but it is unclear whether this is the preface to a global recovery or a temporary rally. Commentators suggest that it will be Q4 2009 before the picture becomes clearer. Thus although the value of assets have gone up it is not possible to accurately assess the financial effect of this event.

#### 4. TOTAL CONTRIBUTIONS RECEIVABLE

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

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

As explained in Note 7 of the Statement of Accounting Policies and Principles, when employees who are members of the Local Government Pension Scheme and aged 50 or over take early retirement due to redundancy, there is a capital cost to the Pension Fund.

The 2008/09 early retirement cost (due to redundancy) borne by the Pension Fund was £2.3m (2007/08: £2.0m) of which £1.8m was recoverable in 2008/09 (2007/08: £0.6m), the balance being recoverable over the following four years. There is a further £3.0m (2007/08: £2.6m) of unrecovered early retirement costs on the Pension Fund relating to redundancies in earlier years of which £1.0m was recoverable in 2008/09 and was recovered during the year (in 2007/08 £0.9m was recovered in the year) with the balance being recoverable over 2009/10, 2010/11, 2011/12 and 2012/13.

For other Related Party transactions please see notes 11, 12, 14 and 15 to these accounts.

#### NOTES TO THE PENSION FUND ACCOUNTS

#### 6. DETAILS OF STOCK RELEASED TO THIRD PARTIES UNDER STOCK LENDING ARRANGEMENT

There was no stock released to third parties under a stock lending arrangement.

#### 7. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2009 the Fund had no commitment to contribute (31 March 2008: £3.8m) into foreign private equity partnerships held with Pantheon Ventures (see Note 3).

#### 8. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The Statement of Investment Principles is included in the Croydon Pension Scheme Annual Report 2008/2009.

#### 9. DETAILS OF ADDITIONAL CONTRIBUTIONS NOT INCLUDED IN PENSION FUND ACCOUNTS

In accordance with the Pension Scheme (Management and Investment of Funds) Regulations 1998, there were no additional contributions included in the Pension Fund Accounts since all Additional Voluntary Contributions (AVC's) are sent directly to the relevant AVC provider. The total AVCs for the year was £228k

#### 10. INVESTMENT INCOME

	<b>2008/09</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
UK equities	11,405	12,586
UK unquoted unit trust	-	1
Interest on cash balances	1,286	1,391
	<hr/> 12,691	<hr/> 13,978

There is no direct investment income received in respect of the UK Gilts and Foreign equities holdings with UBS as these are held as accumulation units and any income received is reinvested.

#### 11. DEBTORS

	<b>2008/09</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
Fund managers' dividends and outstanding tax due	1,430	3,043
Fund managers' unsettled sales	2,018	500
Contributions due in respect of:		
- Employers' contributions	434	509
- Employees' contributions	144	113
Other debtors	1,909	1,622
	<hr/> 5,935	<hr/> 5,787

The unsettled sales related to three outstanding trades all conducted by UBS.

Included in debtors is £578k (2007/08: £622k) of outstanding employers' and employees' contributions from various employer bodies. There were no material contributions due from employer bodies which were paid late.

Included in other debtors is £1.8m (2007/08: £1.5m) of early retirement costs (due to redundancy) borne by the Pension Fund which were recoverable in 2008/09 but not settled by Croydon Council and other bodies as at 31 March 2009 (see Note 7 of the Statement of Accounting Policies and Principles).

**12. CREDITORS**

	<b>2008/09</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
Croydon Council	(4,380)	(1,545)
Fund managers' unsettled purchases	(2,087)	(500)
Unpaid benefits	(607)	(128)
Accrued expenses	(157)	(110)
FTSE 100 Index Futures	(1,515)	-
	<b>(8,746)</b>	<b>(2,283)</b>

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.

**NOTES TO THE PENSION FUND ACCOUNTS****13. 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.

**14. ADMINISTRATIVE EXPENSES**

	<b>2008/09</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
Pensions administration and payroll (see note below)	810	810
Actuarial expenses and valuation fees	51	58
Other administrative expenses	198	136
	<b>1,059</b>	<b>1,004</b>

In March 2007 the pensions administration function was taken back in-house from the pensions administration provider. £0.453m of Croydon Council's Pensions and Treasury section's payroll costs have been recharged to the Pension Fund. These relate to in-house costs of the pensions administration, the non-investment accountancy work and monitoring of expenses.

**15. INVESTMENT MANAGEMENT EXPENSES**

	<b>2008/09</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
Fund managers' fees (see (a) below)	282	212
Investment advisors' fees	97	68
Direct salary and other related expenses (see (b) below)	295	234
	<b>674</b>	<b>514</b>

(a) Fund managers' fees are based on the value of the funds under their control. This excludes fund managers' fees relating to Pantheon Ventures Fund as the fees were deducted at source from the market value of the investments held.

(b) £0.253m of Croydon Council's Pensions and Treasury section's payroll costs have been recharged to the Pension Fund in relation to all aspects of administering the investments of the Pension Fund including investment monitoring and accountancy work.

**16. LUMP SUMS**

	<b>2008/09</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
Commutation of pensions, lump sum retirement benefits and ill health retirement grants	6,824	6,121
Lump sum death benefits	478	192
	<b>7,302</b>	<b>6,313</b>

**17. TRANSFERS VALUES PAID AND TRANSFERS VALUES RECEIVED**

	<b>Transfers paid</b>		<b>Transfers received</b>	
	<b>2008/09</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Group transfers	1,243	-	-	-
Individual transfers	4,591	3,553	5,697	4,742
<b>Total</b>	<b>5,834</b>	<b>3,553</b>	<b>5,697</b>	<b>4,742</b>

One group transfer was paid during the year to the Greater London Magistrates Court. The amount of the transfer was £1,243,266.

**18. 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.

**19. MEMBERSHIP**

Membership of the Fund consists of current and ex-employees not of pensionable age, retired employees and dependants. At 31 March 2009, the Fund had 6,636 contributing members, 5,557 pensioners and 5,151 deferred pensioners.



## Changes to the Local Government Pension Scheme

The Local Government Pension Scheme Regulations were amended with effect from 1st April 2008 and are now split into three distinct Statutory Instruments:

- The Local Government Pension Scheme (Benefits, Membership And Contributions) Regulations 2007 (S.I. 2007/1166);
- The Local Government Pension Scheme (Administration) Regulations 2008 (S.I. 2008/239); and
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (S.I. 2008/238).

A number of amendments have already been made to these Regulations by the Local Government Pension Scheme (Amendment) Regulations 2008 (S.I. 2008/1083) and the Local Government Pension Scheme (Miscellaneous) Regulations 2008 (2008/2425).

The rules governing the Scheme continue to be set by statute in accordance with these Regulations as issued by the Secretary of State for the Communities and Local Government (CLG) and because of this the Scheme remains a statutory, defined benefit, final salary, occupational pension scheme.

A number of changes made to the Scheme as a result of the revised legislation were detailed in last year's annual report but the main changes are listed below:

- The pension accrual rate has increased to 1/60th of final pay for each year and part year of membership built up from 1 April 2008 with no automatic lump sum. It should be noted that previously a 1/80th of final pay pension was built up with an automatic 3/80ths lump sum attached each year. Benefits built up before 1st April 2008 remain unchanged and so there are now two parts to any calculation of benefits for a member who has both pre and post April 2008 membership;
- An employee's contribution rate is now determined by 7 pay bandings with 7 different rates of employee contribution being applied;

- A pension is now available for a Co-habiting Partner as nominated by the Scheme member;
- There are now 3-tiers of ill-health retirement benefits determined by the members ability to obtain “Gainful Employment” in the future;
- The death in service lump sum grant has increased from 2 times annual pensionable pay to 3 times annual pensionable pay;
- The death in retirement lump sum has increased from the balance of 5-years pension where death occurs within 5 years of retirement to the balance of 10-years pension where death occurs before the age of 75;
- A Scheme member can now pay Additional Regular Contributions (ARCs) enabling the Scheme member to buy up to an additional £5000 of Local Government pension.

### **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 (of which Croydon Council is one) 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 2008. 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.

### **Pensions Increase**

Pension in payment and deferred benefits are subject to an annual review under the Pensions (Increase) Act 1971. The Pensions Increase (Review) Order 2009 required an increase of 5.0% (2008: 3.9%) to be awarded from 6th April 2009.

This is reduced proportionately for pensions in payment for less than 12 months. The increase corresponds to the increase applied to State benefits and pensions paid by other public service pension schemes. It reflects the rise in the retail Prices Index (RPI) during the 12 months to the end of September last.

Further details can be obtained from the Pensions and Treasury Management Section at Croydon Council.

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## Further Information

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### 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](http://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](http://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 7834 9144

Website: [www.pensions-ombudsman.org.uk](http://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.pensionservice.gov.uk](http://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.

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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](mailto:pensions@croydon.gov.uk)

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