Croydon Pension Scheme

Annual Report 2011/2012

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Foreword

Looking back over the last year there seems little in the way of sunshine showing through the clouds and I will momentarily sketch the nature of the challenges facing the pensions world. Despite this though the Croydon scheme remains in robust shape and continues to deliver a greatly valued service to the thousands of pensioners who depend upon it in their retirement.

This is the eighth annual report produced while I have been Chairman of the Pensions Committee and before I try to assess the political and economic climate I am obligated to extend my grateful appreciation to those who contribute to the efficient working of the Committee. The seven 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. Our job is to provide guidance and direction to the Council's Pension Fund. The 2011/2012 financial year proved challenging as the effects of the 2008/2009 market collapse continued to influence the global markets.

As the Eurozone crisis unfolded, our earlier concerns about the US and Japanese economies were overshadowed. The risk of a Greek default and possible contagion to Portugal, Ireland, Italy and Spain plagued investor confidence throughout the year and continues to do so. China, long touted as the catalyst to recovery, failed to deliver. The US economy began to show some signs of recovery as did the northern Europeans but the autumn of 2011 showed that institutional investors could still see reverses in their portfolios. We are clearly still a long way from seeing a wholesale economic recovery.

In light of such volatile conditions, the Committee was delighted to see that overall the value of the Pension Fund had actually grown during the year. This was largely due to the changes embedded in earlier years in the diversification of asset classes held, investment made, and a much more aggressive approach to performance.

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.

To conclude on a positive note, the coming year will see a sea-change in the way that pension benefits are delivered. Efficiency savings are the order of the day and this authority is leading the way as part of a national framework. Automatic enrolment into the scheme will benefit hundreds of staff and the introduction of changes to the scheme in 2014 will redress the balance in favour of the majority of Council employees.

Dudley Mead

Councillor Dudley Mead
Chairman of the Pension Committee

1. Management & Advisers

Pension Committee:

The Council is the administrating authority for the Pension Fund and discharges it's duties in respect of maintaining the Pension Fund in the form of the Pensions Committee. The Committee is responsible for investments, administration and strategic management of the Council Pension Fund. 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 seven voting Members of the Council and five non-voting members: two pensioner representatives, two co-opted members and one employee representative. The members of Pensions Committee during the 2011/2012 Municipal year are listed below:

Councillors:

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

Non-voting members:

Pensioners' Representatives:	Gilli Driver
	Peter Howard
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:
Ian Bailey - AON Hewitt
Valentine Furniss – Independent Adviser

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

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

Auditor:
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:

Fidelity International

Franklin Templeton Investments

Henderson Global Investors

Knightsbridge

Nordea

Pantheon Private Equity

Standard Life Investments

Sarasin & Partners

Schroders

Wellington Management

2.2. Administrators to the Fund:

Aon Hewitt

The Bank of New York Mellon

Hymans Robertson

Inalytics

PIRC

WM Performance Services
A State Street Business

3. Publications

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

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

4.1.2. Scheduled:

London Borough of Croydon
ARK Oval Primary Academy
Coulsdon College
Croydon College
Harris Academy Purley
Harris City Academy Crystal Palace
Harris Academy South Norwood
John Ruskin College
Norbury Manor Bus. & Enterprise Coll. for Girls
Oasis Academy Coulsdon
Oasis Academy Shirley Park
Shirley High School
STEP Academy Trust David Livingstone Ac
STEP Academy Trust Gonville Academy
West Thornton Primary Academy

New Scheduled Bodies after 1 April 2012:

Oasis Academy Byron
St Cyprian's Greek Orthodox Primary School Academy
St James The Great
St Josephs College
St Thomas Becket RC Primary School
Woodcote High School

4.2. Resources for Members

4.2.1. 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.

4.2.2. 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

4.2.3. Further Information

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex BN1 4DW
Telephone Number: :0845 600 0707 (Monday to Friday 09.00-17.00)
Website: www.thepensionsregulator.gov.uk

The role of the Pensions Regulator has been set out by Parliament, and is to:
- Protect the benefits of members of work-based pension schemes;
- Promote the good administration of work-based pension schemes;
- Reduce the risk of situations arising which may lead to claims for compensation from the Pensions Protection Fund.

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 7630 2200
Website: www.pensions-ombudsman.org.uk

The Pensions Ombudsman can investigate and determine any complaint or disputes between scheme members and administrators, involving maladministration, or matters of fact or law.

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

4.3. Members Self Service

Scheme members can view their pension details by logging on to our internet member self service. This service has recently been upgraded and provides various member data displays, including service history and financial information, as well as enabling members to carry out their own benefit calculations. Members can also check their record to make sure their nomination for their death grant is correct and, if applicable, that their record is up to date with their nominated co-habiting partner's details.

You can log in to the service at:
http://www.croydon.gov.uk/democracy/budgets/pensions/penmemberinfo/pens-selfservice
and request a password.

5. Main Features of the Scheme

5.1. Eligibility for membership

Membership is generally available to employees of participating employers who have contracts of at least 3 months, are under age 75, and are not eligible for membership of other statutory pension schemes. 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.

From April 2011 public sector occupational pensions increased 3.1%; therefore the pay bands by which a member's rate of contributions were increased. Where a member had an annual incremental increase, this may have resulted in them paying a higher rate of contributions from April 2011.

Band	Salary Range	Contribution Rate
1	£0 to £12,900	5.5%
2	Over £12,901 to £15,100	5.8%
3	Over £15,101 to £19,400	5.9%
4	Over £19,401 to £32,400	6.5%
5	Over £32,401 to £43,300	6.8%
6	Over £43,301 to £81,100	7.2%
7	Over £81,100+	7.5%

The former manual workers protection ended on 31st March 2011. All manual workers new contribution rates are as per the above table.

5.7. Age of retirement

Normal retirement age is age 65, but:

- Pension benefits are payable at any age if awarded due to ill health
- Members may retire with full accrued benefits from age 55 onwards if their retirement is on grounds of redundancy or business efficiency
- Members who have left employment may request payment of benefits from age 55 onwards, but requests made before age 60 need employer consent. Actuarial reductions may apply where benefits come into payment before age 65
- Members who remain in employment may also ask to retire flexibly from age 55 onwards if they reduce their hours of work or grade. Employer consent is required and actuarial reductions may apply.
- Payment of benefits may be delayed beyond age 65 but only up to age 75.

5.8. Pensions Increases

Pensions payable to members who retire on health grounds and to 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.

LGPS pensions are increased in line with the rise in the Consumer Price Index (CPI), in accordance with the Pensions Increase Act 1971. Although pensions are increased in April, they are based on the rise in the CPI over the 12 months to the previous September. The pensions increase calculation for April 2011 was based on the increase in CPI during the 12 months preceding September 2010 and was set at 3.1%.

5.9. Pension Fund Fraud / National Fraud Initiative

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

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

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

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

6. Changes to the Local Government Pension Scheme

6.1. The Government's Independent Public Service Pensions Commission

The Independent Public Service Pensions Commission (IPSPC) issued its final report on 10 March 2011. The report re-iterated the original case for reform of the public service pension schemes which included:

- the rising value of benefits due to increase longevity;
- unequal treatment of members within the same profession;
- unfair sharing of costs between the employee, the employer and taxpayers; and
- barriers to increasing the range of providers of public services.

Any reform would need to ensure that public service pension schemes are:

- affordable and sustainable;
- adequate and fair;
- supportive of productivity; and
- transparent and simple.

The report has made 27 recommendations for the reform of the public service pension schemes. The main ones that will have implications for the Local Government Pension Scheme are:

- the LGPS is to remain funded;
- accrued rights in the LGPS should be honoured in full;
- members of the defined benefit public service pension schemes should be moved to the new career average revalued earnings (CARE) schemes;
- tiered contribution rates should be set according to the level of earnings;
- there should be a fixed cost ceiling to protect the taxpayer;
- pensions benefits should be uprated in line with average earnings while the member is an active member;
- comprehensive data for all LGPS funds should be centrally collated and published (including comparisons);

- every individual LGPS fund should have a properly constituted, trained and competent Pension Board with member nominees;
- public service pension schemes should continue to provide an adequate level of income in retirement;
- non-public service workers should not have access to the public service pension schemes in future;
- public service employers should take greater account of public service pensions when determining total remuneration packages and designing workforce strategies;
- employers should seek to maximise participation in the schemes where appropriate;
- flexible retirement should be encouraged and abatement in its current form should be removed for those who return to work;
- a system should be established which ensures there is independent oversight of the governance, administration and data transparency of public service pension schemes;
- the Office of Budget Responsibility should regularly publish an analysis of the long term fiscal impact of the main public service pension schemes; and
- benchmarking standards should be applied to the administration of the public service pension schemes.

6.2. Reform of the LGPS

On 20 December, the Chief Secretary to the Treasury (Rt Hon Danny Alexander) updated the House of Commons on progress made in the negotiations with the Trade Unions in respect of the reform of the public sector pension schemes.

The update was accompanied by a written ministerial statement from the Secretary of State for Communities and Local Government (Rt Hon Eric Pickles MP) on the LGPS. The written ministerial statement reported that the Local Government Association and the local government trades unions have jointly signed a Heads of Agreement on the principles which will govern scheme design, ongoing cost management and governance of the new Scheme to be introduced by 2014. There will be further negotiations on the agreed principles in the New Year.

The agreed features include:

- the introduction of the new Scheme in April 2014 (with regulations on the Statute Book by April 2013) with a single solution to both the short-term and long-term issues;
- the new scheme will be a CARE scheme;
- the ability to have limited or no contribution rate increases for employees provided the Government's financial constraints are met;
- some elements of choice to encourage new members to join and existing members to remain in the Scheme;
- a member's Normal Pension Age will match the rise in the State Pension Age

6.3. Auto Enrolment

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

Employers have to automatically enrol workers who:

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

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

Employees of Croydon Council will be auto enrolled on 1st January 2013.

7. Management of the Assets

The distribution of the Fund's assets among investment managers at 31st March 2012 is outlined below.

Investment Manager	Investment Mandate	% of Fund
Deutsche Bank Advisors	Global Thematic Equities (Segregated)	10.06%
Fidelity	Global Equities including emerging markets (Segregated)	15.66%
Franklin Templeton	Global Equities (Segregated)	11.22%
Sarasin	Global Thematic Equity (Pooled)	10.68%
Pantheon Private Equity	Invest in unquoted companies (Pooled FofF) (US Dollar & Euro)	2.53%
Mercury Unquoted Securities Trust	Unquoted Unit Trust	0.00%
Equitix	Private Equity – PFI Projects (Pooled)	2.49%
Knightsbridge	Private Equity – Venture Capital (Pooled FofF) (US Dollar)	0.59%
Deutsche Bank Advisors	Fixed Interest Securities (Pooled)	0.02%
Standard Life	Corporate Bond Fund and Absolute Return Global Fund (Pooled)	18.32%
Wellington	Sterling Core Bond (Pooled)	13.20%
Bluecrest	Fund of Hedge Funds (Pooled FofF)	1.98%
Fauchier	Fund of Hedge Funds (Pooled FofF)	1.76%
Henderson Global Investors	European Property Funds	2.40%
Schroder Investment Management	UK Property Funds	3.29%
Nordea	Global Tactical Asset Allocation (Pooled)	3.28%
All Fund Managers – Cash Management	Maximising short term returns prior to the investment of funds	1.55%
London Borough of Croydon Cash Management	Cash LIBID 7 day notice deposit account	1.07%
Non Cash Net Fund Manager balance	Not applicable	0.67%
Non Cash Net London Borough of Croydon balance	Not applicable	(0.80%)
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% +/- 3
Private Equity	4% +/- 3
Bonds	30% +/- 3
Fund of Hedge Funds	4%
Property	7%
Global Tactical Asset Allocation	4%
Cash / Other	1%
Total	100%

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 2011/12, for local authority pension funds, there was an average increase in value of 2.6%. This was in line with CPI inflation and average weekly earnings of 3.5% and 0.82% respectively.

The financial year ending 31 March 2012 saw a decrease for equities in the major markets with returns of 0.1% in the UK, -11.4% in Europe and 6.9% in North America, although saw an increase 0.9% in Japan. Equity returns were significantly below the UK bonds (gilts) return of 14.5%.

8.2. Strategy

The Pension Committee reviews its strategy for allocating the Pension Fund assets amongst various investment categories to coincide with the Actuaries Triennial Valuation. The revised asset allocation strategy is intended to generate an investment return on the Fund in line with the requirements of the Actuary's recovery plan as set out in the Actuaries Triennial Valuation. The most recent triennial valuation was calculated as at the 31st of March 2010. The investment strategy is therefore due to be reviewed in light of the next Triennial Valuation as at the 31st of March 2013. This strategy is set out in detail within the Statement of Investment Principles which is published on the Council's website.

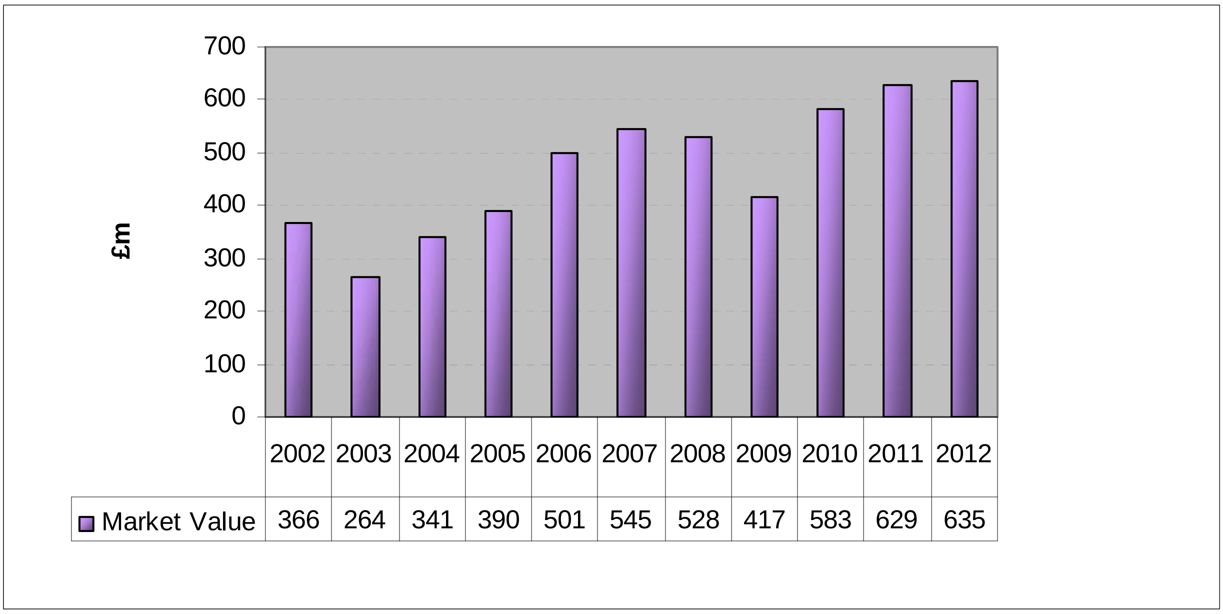
8.3. Performance

The Fund's performance is compared with the Council's own customised benchmarks and to the average return from 84 local authority pension funds, as measured by WM Company. During the 2011/12 financial year the Fund's return of 1.7% underperformed its customised benchmark of 4.3% by 2.5%. The Fund also underperformed the average return for local authorities of 2.6%.

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.

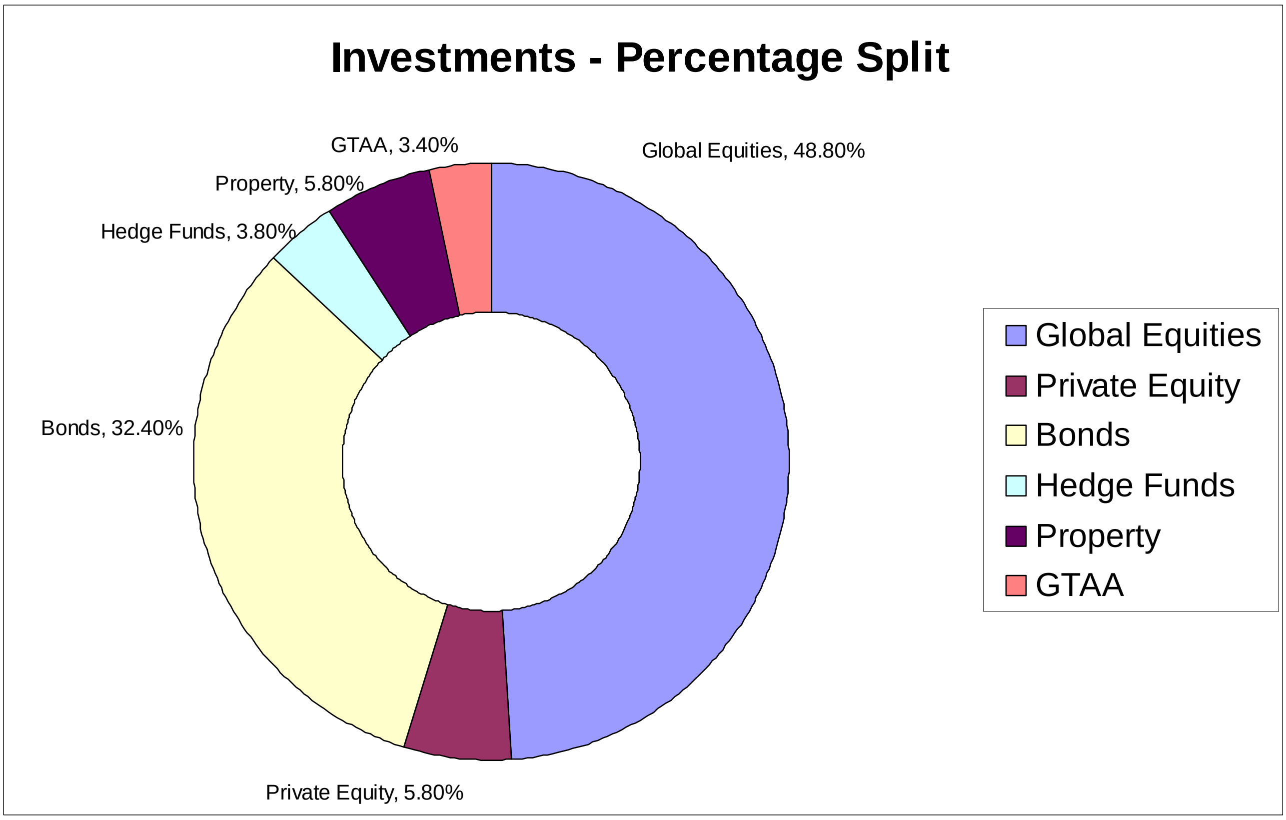
8.4. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2012 were £635 million compared with £366 million at 31 March 2002. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2011/12 £m	%
Market Value of investments	619.4	97.47%
Other Balances held by Fund Managers	4.2	0.66%
Cash held by Fund managers	9.9	1.56%
LBC Fund Net Current Assets	2.0	0.31%
Total at the end of the year	**635.5**	**100.0**

8.5. Distribution of Assets by Market Value



Investments	2011/12 £000s	% of Investments
Global Equities	302,548	48.80%
Private Equity	35,631	5.80%
Bonds	200,408	32.40%
Hedge Funds	23,755	3.80%
Property	36,158	5.80%
GTAA	20,867	3.40%
Total at the end of the year	619,367	100.00%

8.6. Statistics 2011/2012

Returns	Croydon Fund	Average Local Authority
1 year (% per year)	1.7	2.6
3 years (% per year)	14.4	14.5
5 years (% per year)	2.4	3.2
10 years (% per year)	n/a	5.7

Pension Fund Investment Distribution:	Croydon Fund	Average Local Authority
Global Equities	48.80%	55.00%
Private Equity	5.80%	4.40%
Bonds	32.40%	18.00%
Hedge Funds	3.80%	2.32%
Property	5.80%	7.00%
GTAA	3.40%	0.24%

8.7. Top 25 Global Holdings

	Market Value at 31 March 2012	% of Total Global Equity Investment
APPLE INC	4,127,091	1.25%
SAIPEM	3,344,699	1.02%
PEARSON ORD	3,309,271	1.01%
CSL ORD	3,289,456	1.00%
AMAZON.COM INC	3,125,228	0.95%
UMICORE NPV	3,114,822	0.95%
SCHLUMBERGER LTD	2,764,330	0.84%
UNILEVER	2,661,060	0.81%
OCCIDENTAL PETROLEUM CORP	2,463,977	0.75%
CHEVRON CORP	2,449,170	0.74%
POTASH CORP	2,346,480	0.71%
MICROSOFT CORP	2,310,468	0.70%
PFIZER INC	2,263,768	0.69%
INDUSTRIA DE DISENO TEXTIL SA	2,149,244	0.65%
UNITED OVERSEAS BANK	2,131,773	0.65%
DANAHER CORP	2,118,967	0.64%
SYNGENTA AG	2,099,982	0.64%
PRAXAIR INC	2,087,405	0.63%
NOBLE GROUP	2,053,331	0.62%
MTN GROUP LTD	2,028,879	0.62%
ADMIRAL GROUP ORD	2,016,200	0.61%
COCA-COLA CO	2,014,979	0.61%
ELEKTA SER B NPV	1,956,209	0.59%
HENGAN INTL GROUP CO LTD	1,954,223	0.59%
ROCHE HLDG AG	1,946,173	0.59%
	62,127,185	18.9%

9. Pension Fund Annual Accounts 2011/12

CROYDON'S ROLE AS A PENSION ADMINISTERING AUTHORITY

The Council as a Local Authority and a pension administering Authority is acting in two separate roles. As a Local Authority it is accountable to the residents of the London Borough of Croydon for its stewardship of public funds. As a pension administering Authority it is accountable both to its employees who are members of the Pension Fund, and to past employees in receipt of a pension for its stewardship of pension assets. The two roles, and the relevant interest groups, are significantly different. Consequently, the Pension Fund accounts are presented in an appendix to clearly demonstrate the distinction.

FUND'S OPERATIONS AND MEMBERSHIP

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

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

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

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

Scheduled:
ARK Oval Primary Academy, Coulsdon College, Croydon College, David Livingstone Academy, Gonville Academy, Harris Academy (Purley), Harris Academy (South Norwood), Harris City Academy (Crystal Palace), John Ruskin College, Norbury Manor Business and Enterprise College for Girls, Oasis Academy Coulsdon, Oasis Academy Shirley Park, Pegasus Academy, Quest Academy, Shirley High School Performing Arts College, West Thornton Primary Academy.

Management of the Fund

The London Borough of Croydon has a statutory responsibility to administer and manage the London Borough of Croydon Pension Fund on behalf of all the participating employers of the Fund in Croydon, and the past and present contributing members, and their dependents.

The Council is also responsible for making decisions governing the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Committee. The Pension Committee's responsibilities include reviewing and monitoring the Fund's investments; selecting and deselecting investment managers and other relevant third parties and establishing investment objectives and policies. The Pension Committee is made up of seven voting Members of the Council, two non-voting pensioner representatives, two co-opted non-voting members and a non-voting employee representative. In addition, the Committee is supported by officers and external advisors.

STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND

1. GENERAL PRINCIPLES

The financial statements have been prepared in accordance with the provisions of Sections 6.5.1 to 6.5.5 of the 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom 2011, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. STATEMENT OF INVESTMENT PRINCIPLES

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

3. BASIS OF PREPARATION

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

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.

PENSION FUND ACCOUNTS

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012

CONTRIBUTIONS AND BENEFITS	Note No.	2011/12 £000	2010/11 £000
Employees' contributions:			
London Borough of Croydon		7,647	8,567
Scheduled bodies		864	687
Admitted bodies		487	473
Employers' contributions:			
London Borough of Croydon		26,395	29,303
Scheduled bodies		3,011	2,381
Admitted bodies		1,451	1,169
Employers' deficit funding contributions		0	146
Transfer values received	15	4,868	8,324
Early retirement costs recovered	8	1,569	2,996
		46,292	54,046
Benefits - Pensions		31,806	29,035
- Lump sums	14	13,339	8,314
Payments to and on account of leavers - Refund of contributions		10	7
- Transfer values paid	15	3,209	5,376
Administrative expenses	11	1,762	1,728
		50,126	44,460
Net additions / (withdrawals) from dealings with members		(3,834)	9,586

RETURNS ON INVESTMENTS	Note No.	2011/12 £000	2010/11 £000
Investment income	13	5,795	5,975
Taxes on income		(272)	(192)
Net gains / (losses) on currency revaluations and underwriting commissions		182	76
Change in market value of investments:			
Unrealised	3	5,708	22,093
Realised	3	700	10,212
Investment management expenses	12	(1,669)	(1,872)
Net returns on investments		10,444	36,292
Net increase / (decrease) in the Fund during the year		6,610	45,878
Net assets at the start of the year		629,339	583,461
Net assets at the end of the year		635,949	629,339

PENSION FUND ACCOUNTS - NET ASSETS STATEMENT

NET ASSETS STATEMENT AS AT	Note No.	31 March 2012 £000	31 March 2011 £000	1 April 2010 £000
Investments held by the Fund Managers:				
Global equities - segregated funds	2 - 5	218,327	204,626	203,374
Global equities - pooled funds	2 - 5	84,221	124,243	105,867
Private equity	2 - 5	36,061	23,453	16,483
Bonds	2 - 5	200,408	183,151	178,269
Hedge funds	2 - 5	23,755	23,975	23,017
Property	2 - 5	36,158	37,586	25,254
Global Tactical Asset Allocation	2 - 5	20,867	21,883	22,283
Transition account	2 - 5	0	22	21
Total Investments held by the Fund Managers		619,797	618,939	574,568
Other Balances held by the Fund Managers				
Outstanding dividends and tax reclaimable	9	655	934	630
Outstanding trades for securities sold	9	5,973	1,167	2,047
Outstanding trades for securities purchased	10	(2,394)	(595)	(2,248)
Total Other Balances held by the Fund Managers		4,234	1,506	429
Cash held by the Fund Managers		9,869	4,602	7,587
Total Assets held by the Fund Managers		633,900	625,047	582,584
Net Current Assets:				
Debtors	9	886	2,561	717
Cash held by the London Borough of Croydon		169	28	7,052
Cash on deposit with Goldman Sachs		6,814	8,295	0
Creditors	10	(5,820)	(6,592)	(6,892)
Net Assets at the End of the Year		635,949	629,339	583,461

In the past, segregated and pooled global equity funds have been aggregated; they are now shown separately in accordance with recognised best practice; the prior year comparatives have been changed to reflect this. The change is also reflected in Notes 3, 4 and 5.

Critical Judgements

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

NOTES TO THE PENSION FUND ACCOUNTS

1. ACTUARIAL POSITION

The accounts summarise the transactions and net assets of the Fund and do not take account of liabilities to pay pensions and other benefits in the future. The adequacy of the Fund's investments and contributions in relation to its overall obligations was reviewed at the triennial actuarial valuation of the Fund as at 31 March 2010 in accordance with the Local Government Pension Scheme Regulations 1997 (as amended). The employers' contribution rates for 2011/12 are as follows:

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

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

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

The actuarial assumptions used in preparing the valuation were:

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

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

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

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

NOTES TO THE PENSION FUND ACCOUNTS

1. ACTUARIAL POSITION (continued)

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

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

Notes
1. Includes the former Grant Maintained Schools

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

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

The employers' contribution due from the London Borough of Croydon and grouped Scheduled Bodies was £14,971,000. However, this sum was calculated as a proportion of the gross pensionable pay. As this figure fell during the period, largely as a result of redundancies in response to a reduction in the level of central government support, the sum contributed fell short of the target figure.

The contribution by Other Grouped Bodies was £4,000 less. This is because Age Concern (Croydon), Croydon Welcare, Croydon Meals Agency and Croydon Youth Development Trust have all left the Fund.

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

2. INVESTMENTS

The Pension Fund 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.

During 2010/11 the Pension Committee agreed modifications to the original allocations.

Asset Class	Benchmark	Original Weighting	Revised Weighting
UK and Overseas Listed Equities	MSCI AC World Index	50.00%	50% + / - 3%
Bonds	18% Merrill Lynch Sterling non gilts all stocks index 12% Merrill Lynch Sterling Broad Market index	30.00%	30% + / - 3%
Property	IPD All Properties index	7.00%	7% + / - 3%
Funds of Hedge Funds	3 month LIBOR plus 5% / plus 10%	4.00%	4.00%
Private Equity	MSCI AC World Index / Absolute Return of 12%	4.00%	4.00%
Global Tactical Asset Allocation	3 month LIBOR plus 10%	4.00%	4.00%
Cash		1.00%	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 and Schroder Investment Management **
Global Tactical Asset Allocation	Nordea ***
Cash	Cash is invested by the in-house team

* The assets managed by Edinburgh Partners were fully redeemed on 15 September 2011
** Henderson have surrendered the UK portion of their property mandate and Schroder now manager the UK property portion of the Fund (effective from 15 August 2011).
*** The Nordea Investment will be fully redeemed in June 2012. Please see Note 25, Events after the Balance Sheet date.

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 Global 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. The Fund fully redeemed it's investment with Edinburgh Partners on 15 September 2011.

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 managers Henderson Global Investors and Schroder Investment Management, who invest in several property funds. The valuations presented in the accounts are those provided by the fund managers and are all at market value. Although bid prices are available in some instances it is considered inconsistent to present a mixture of bid and market 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 - segregated funds	204,626	167,954	(150,645)	(1,395)	(2,213)	218,327
Global equities - pooled funds	124,243	16,709	(46,591)	(7,792)	(2,348)	84,221
Private equity	23,453	14,817	(7,380)	2,011	3,160	36,061
Bonds	183,151	60,553	(60,934)	6,492	11,146	200,408
Hedge funds	23,975	0	0	0	(220)	23,755
Property	37,586	5,789	(5,800)	1,384	(2,801)	36,158
Global Tactical Asset Allocation	21,883	0	0	0	(1,016)	20,867
Transition account	22	0	(22)	0	0	0
	618,939	265,822	(271,372)	700	5,708	619,797

4. ANALYSIS OF INVESTMENTS

Investments are valued at the close of business on 31 March 2012 in accordance with the valuation methodologies detailed in Note 2.

	2012 Book £000	2012 Market £000	2012 Market %	2011 Book £000	2011 Market £000	2011 Market %
Global equities - segregated funds **(Quoted)**						
DB Advisors	62,591	63,902	10.3%	52,454	55,038	8.9%
Fidelity	74,656	84,790	13.7%	79,744	92,940	15.0%
Franklin Templeton	59,416	69,635	11.2%	48,643	56,648	9.2%
Total equities - segregated	196,663	218,327	35.2%	180,841	204,626	33.1%
Global equities - pooled funds **(Quoted)**						
Edinburgh Partners	0	0	0.0%	48,255	52,442	8.5%
Fidelity	13,522	14,710	2.4%	12,528	15,356	2.5%
Franklin Templeton	1,207	1,656	0.3%	0	0	0.0%
Sarasin	59,620	67,855	10.9%	46,848	56,445	9.1%
Total equities - pooled	74,349	84,221	13.6%	107,631	124,243	20.1%
Private Equity **(Unquoted)**						
Pantheon Ventures	11,459	16,049	2.6%	7,258	12,887	2.1%
MUST 2 (Mercury Unquoted Securities Trust)	0	9	0.0%	0	8	0.0%
Equitix	11,307	15,840	2.6%	7,360	8,210	1.3%
Knightsbridge	3,962	4,163	0.7%	2,662	2,348	0.4%
Total private equity	26,728	36,061	5.9%	17,280	23,453	3.8%
Bonds **(Quoted)**						
DB Advisors	137	116	0.0%	709	720	0.1%
Standard Life	108,662	116,417	18.8%	102,010	109,594	17.7%
Wellington	67,976	83,875	13.5%	67,946	72,837	11.8%
Total Bonds	176,775	200,408	32.3%	170,665	183,151	29.6%
Hedge Fund of Funds **(Quoted)**						
Bluecrest	11,230	12,589	2.0%	11,230	12,390	2.0%
Fauchier	11,314	11,166	1.8%	11,314	11,585	1.9%
Total Hedge Fund of Funds	22,544	23,755	3.8%	22,544	23,975	3.9%
Property **(Quoted)**						
Henderson Global Investors	17,655	15,278	2.5%	37,586	37,586	6.1%
Schroder	20,881	20,880	3.4%	0	0	0.0%
Total Property	38,536	36,158	5.9%	37,586	37,586	6.1%
Global Tactical Asset Allocation **(Quoted)**						
Nordea	24,000	20,867	3.4%	24,000	21,883	3.5%
Bank of New York Mellon						
Other investment balances *	0	0	0.0%	22	22	0.0%
Total investments	559,595	619,797	100.0%	560,569	618,939	100.0%

In the past, segregated and pooled global equity funds have been aggregated; they are now shown separately in accordance with recognised best practice; the prior year comparatives have been changed to reflect this.

NOTES TO THE PENSION FUND ACCOUNTS

4. ANALYSIS OF INVESTMENTS (continued)

At the close of the 2011/12 accounting period the recovery for the UK economy was uncertain, particular concerns related to the continuing crisis in the Eurozone. This is reflected in the volatility of the FTSE 100 which varied between a low of 4,944.40 and a high of 6,082.90 during the financial year. The value of the Pension Fund's assets remained virtually static.

5. GEOGRAPHICAL ANALYSIS OF INVESTMENTS

	2012			2011		
	UK £000	**Foreign £000**	**Total £000**	**UK £000**	**Foreign £000**	**Total £000**
Global equities - segregated funds **(Quoted)**						
DB Advisors	1,569	62,333	63,902	2,997	52,041	55,038
Fidelity	6,806	77,984	84,790	7,106	85,834	92,940
Franklin Templeton	7,537	62,098	69,635	5,954	50,694	56,648
Total equities	15,912	202,415	218,327	16,057	188,569	204,626
Global equities - pooled funds **(Quoted)**						
Edinburgh Partners	0	0	0	0	52,442	52,442
Fidelity	112	14,598	14,710	126	15,230	15,356
Franklin Templeton	0	1,656	1,656	0	0	0
Sarasin	0	67,855	67,855	0	56,445	56,445
Total pooled investments	112	84,109	84,221	126	124,117	124,243
Private Equity **(Unquoted)**						
Pantheon Ventures	0	16,049	16,049	0	12,887	12,887
MUST 2 (Mercury Unquoted Securities Trust)	9	0	9	8	0	8
Equitix	15,840	0	15,840	8,210	0	8,210
Knightsbridge	0	4,163	4,163	0	2,348	2,348
Total private equity	15,849	20,212	36,061	8,218	15,235	23,453
Bonds **(Quoted)**						
DB Advisors	0	116	116	0	720	720
Standard Life	116,417	0	116,417	109,594	0	109,594
Wellington	0	83,875	83,875	0	72,837	72,837
Total Bonds	116,417	83,991	200,408	109,594	73,557	183,151
Hedge Fund of Funds **(Quoted)**						
Bluecrest	12,589	0	12,589	12,390	0	12,390
Fauchier	11,166	0	11,166	11,585	0	11,585
Total Hedge Fund of Funds	23,755	0	23,755	23,975	0	23,975
Property **(Quoted)**						
Henderson Global Investors	0	15,278	15,278	24,369	13,217	37,586
Schroder	20,880	0	20,880	0	0	0
Total Property	20,880	15,278	36,158	24,369	13,217	37,586
Global Tactical Asset Allocation **(Quoted)**						
Nordea	20,867	0	20,867	21,883	0	21,883
Bank of New York Mellon						
Other investment balances *	0	0	0	22	0	22
Total investments	213,792	406,005	619,797	204,244	414,695	618,939

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

In the past, segregated and pooled global equity funds have been aggregated; they are now shown separately in accordance with recognised best practice; the prior year comparatives have been changed to reflect this.

NOTES TO THE PENSION FUND ACCOUNTS

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

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

7. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES

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

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

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

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

Employer related;

Trustee related; and

Officers and managers.

Employer Related Parties

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

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

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

NOTES TO THE PENSION FUND ACCOUNTS

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

Trustee Related Parties

Trustee related parties include:

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

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

Officers and Managers

Related parties under this heading include:

a. key management (senior officers) of the Fund and their close families
b. companies and businesses controlled by the key management of the Fund, or their close families.

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

The only financial relationship that either trustees or officers and managers have with the Fund is as prospective 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 2011/12 the capitalised cost of early retirements (due to redundancy) requiring reimbursement to the Pension Fund was £0.7m (2010/11 £1.8m) of which £0.7m was reimbursed during 2011/12 (2010/11 £1.8m). From 2010/11 onwards the entire capitalised cost of early retirement was/will be reimbursed in the year in which it is incurred.

At the commencement of the financial year 2011/12, £0.9m (2010/11 £2.0m) of capitalised early retirement costs relating to prior year redundancies were the subject of reimbursements to the Pension Fund by annual instalments. During 2011/12 £0.6m (2010/11 £1.1m) was reimbursed to the Pension Fund, the remaining amount to be reimbursed by instalments during the following two financial years.

9. DEBTORS

	2011/12 £000	2010/11 £000
Central Government Bodies	0	0
Other Local Authorities - Croydon Council	268	2,133
Other Local Authorities	34	4
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and Individuals:		
Investment Income	655	940
Investment Disposals	5,973	1,167
Sundry Debtors	584	418
	7,514	4,662

The presentation of this note, (9), and the following note, (10), have both been amended to comply with the disclosure requirements of the 2011-12 Code of Practice on Local Authority Accounting, based upon International Financial Reporting Standards.

NOTES TO THE PENSION FUND ACCOUNTS

10. CREDITORS

	2011/12 £000	2010/11 £000
Other Local Authorities - Croydon Council	(4,572)	(5,335)
Public corporations and trading funds - Audit Commission	(11)	(69)
Other entities and individuals		
Investment purchases	(2,394)	(595)
Sundry expenses	(1,237)	(1,188)
	(8,214)	(7,187)

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

	2011/12 £000	2010/11 £000
Pensions administration and payroll (see note below)	1,466	1,450
Audit Fees	34	69
Actuarial expenses and valuation fees	184	112
Other administrative expenses	78	97
	1,762	1,728

£909k (2010/11 £732k) 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

	2011/12 £000	2010/11 £000
Fund managers' fees (see (a) below)	1,130	1,526
Investment advisors' fees	273	195
Direct salary and other related expenses (see (b) below)	266	151
	1,669	1,872

(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) £227k (2010/11 £114k) 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

	2011/12 £000	2010/11 £000
Final distribution from the terminated UBS FTSE350 investment	0	103
Distributions from global equity fund managers	4,559	4,490
Henderson property funds	638	954
Schroder property funds	282	0
Interest on cash deposits	17	11
Other interests and adjustments	27	225
	5,523	5,783

14. LUMP SUMS

	2011/12 £000	2010/11 £000
Lump sum retirement benefits	11,524	6,547
Ill health retirement grants	549	1,135
Death grants	1,266	632
	13,339	8,314

NOTES TO THE PENSION FUND ACCOUNTS

15. TRANSFERS VALUES PAID AND TRANSFERS VALUES RECEIVED

	Transfers paid		Transfers received	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
Group transfers	0	0	78	0
Individual transfers	3,209	5,376	4,790	8,324
Total	3,209	5,376	4,868	8,324

16. DETAILS OF STOCK RELEASED TO THIRD PARTIES UNDER A STOCK LENDING ARRANGEMENT

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

17. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There were no contingent liabilities at 31 March 2012. The Fund had the following contractual commitments denominated in Sterling, Euros and Dollars.

Fund Manager	Committed 000s	Drawn 000s	Due 000s
Pantheon			
USA IV Fund	$16,151	$14,778	$1,373
USA IX Fund	$23,200	$2,349	$20,851
Asia III Fund	$1,997	$1,858	$139
Asia VI Fund	$12,000	$2,400	$9,600
Euro III Fund	€ 12,299	€ 11,069	€ 1,230
Euro VII Fund	€ 17,000	€ 2,040	€ 14,960
Equitix			
Fund I	£10,000	£8,766	£1,234
Fund II	£10,000	£3,190	£6,810
Knightsbridge	$13,000	$6,240	$6,760

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 £408k for 2011/12 (£298k in 2010/11), are sent directly to the relevant AVC provider.
The value at 31 March 2012 of separately invested additional voluntary contributions was £1.2m (£1.0m in 2010/11).

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. In 2011/12, £0.3m (£0.2m in 2010/11) tax has been paid that is irrecoverable.

21. MEMBERSHIP

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

	2011/12	2010/11	% change
Contributing members	6,286	6,766	(7.09%)
Deferred pensioners	6,408	5,841	9.71%
Pensioners	6,205	5,995	3.50%
Total	18,899	18,602	1.60%

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 -12,900	5.5%
2	12,901-15,100	5.8%
3	15,101-19,400	5.9%
4	19,401-32,400	6.5%
5	32,401-43,300	6.8%
6	43,301-81,100	7.2%
7	81,100+	7.5%

Manual Workers Banding - Year Commencing

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

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

For the year ended 31 March 2012 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.

In the previous year's accounts (2010/11), the actuaries 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 Local Authority Accounting Practice (LAAP) Bulletin 89.

NOTES TO THE PENSION FUND ACCOUNTS

24. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS26

CIPFA's Code of Practice on Local Authority Accounting 2011/12 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

On this basis the present value of promised retirement benefits as at 31 March 2012 is £1,065m. Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2012 comprises £459m in respect of employee members, £211m in respect of deferred pensioners and £395m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

Richard Warden
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
30 May 2012

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

NOTES TO THE PENSION FUND ACCOUNTS

25. EVENTS AFTER THE BALANCE SHEET DATE

Market volatility continues despite the efforts of EU leaders to achieve stability. The value of the Fund varies on a daily basis with the fluctuations in the market. By the end of August the value of the Fund's investments had reduced by approximately £4m (0.65%), having been lower by £12m (1.9%) at the end of May. To minimise volatility within the Fund, managers have worked to reduce their funds' exposure in those markets and market sectors most affected by the present economic instability.

The current Asset Allocation Strategy, introduced in 2009, has been structured to meet the twin goals of closing the deficit gap over a reasonable period of time and generating returns within a limited risk budget. Thus the Authority has exposure to a range of investments with a higher level of inherent risk than found with investments in the equity or bond markets. In extraordinary circumstances these investments may not perform as intended. One such example is the Global Tactical Allocation Fund. As this Fund has not met the performance target set for a three year period, 2009 - 2012 it has been decided to withdraw from this Fund. The Fund's allocation was liquidated in July 2012.

26. FINANCIAL INSTRUMENTS

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

During 2010/11 the Pension Committee agreed modifications to the original allocations.

Asset Class	Benchmark	Original Weighting	Revised Weighting
UK and Overseas Listed Equities	MSCI AC World Index	50.00%	50% +/ - 3%
Bonds	18% Merrill Lynch Sterling non gilts all stocks index 12% Merrill Lynch Sterling Broad Market index	30.00%	30% +/ - 3%
Property	IPD All Properties index	7.00%	7% +/ - 3%
Funds of Hedge Funds	3 month LIBOR plus 5% / plus 10%	4.00%	4.00%
Private Equity	MSCI AC World Index / Absolute Return of 12%	4.00%	4.00%
Global Tactical Asset Allocation	3 month LIBOR plus 10%	4.00%	4.00%
Cash		1.00%	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 end if one or more admitted bodies was in difficulty. Immediate action could be taken and the maximum loss involved would be one month's contributions.

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

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

NOTES TO THE PENSION FUND ACCOUNTS

26. FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

NOTES TO THE PENSION FUND ACCOUNTS

26. FINANCIAL INSTRUMENTS (Continued)

Sensitivity Analysis
A movement of 1% in the value of equities would cause a change in the asset value of the Fund of £3.3m. A 1% change in the value of bonds would have a £2.0m effect.

Classification of Financial Instruments
Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the period.

	Designated as fair value through profit and loss £000	Loans and Debtors £000	Financial liabilities at amortised cost £000
Financial Assets			
Fixed interest securities	200,408	0	0
Equities	218,327	0	0
Pooled investments	84,221	0	0
Pooled property investments	36,158	0	0
Hedge Funds	23,755	0	0
Private equity/infrastructure	36,061	0	0
Global Tactical Asset Allocation	20,867	0	0
Cash	0	16,852	0
Other investment balances	6,628	0	0
Debtors	0	886	0
Total Financial Assets	626,425	17,738	0
Financial Liabilities			
Other investment balances	(2,394)	0	0
Creditors	0	0	(5,820)
Total Financial Liabilities	(2,394)	0	(5,820)
Net Assets	624,031	17,738	(5,820)

Net Gains and Losses on Financial Instruments	31 March 2012 £000
Financial assets	
Fair value through profit and loss	6,408
Loans and debtors	0
Financial liabilities measured at amortised cost	0
Financial liabilities	
Fair value through profit and loss	0
Loans and debtors	0
Financial liabilities measured at amortised cost	0
Total	6,408

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

	Carrying Amount £000	Fair Value £000
Financial Assets		
Fair value through profit and loss	626,425	626,425
Loans and Debtors	17,738	17,738
Total Financial Assets	644,163	644,163
Financial Liabilities		
Fair value through profit and loss	(2,394)	(2,394)
Financial liabilities at amortised cost	(5,820)	(5,820)
Total Financial Liabilities	(8,214)	(8,214)

NOTES TO THE PENSION FUND ACCOUNTS

26. FINANCIAL INSTRUMENTS (Continued)

Valuation of financial instruments carried at fair value
The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level One
Financial instruments at Level 1 are those where the fair value are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level Two
Financial instruments at Level 2 are those whose quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.

Level Three
Financial instruments at Level 3 are those where at least one input, that could have a significant effect on the instrument's valuation, is not based on observable market data.

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

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

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2012	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	509,584	36,158	80,683	626,425
Loans and debtors	17,738	0	0	17,738
Total financial assets	527,322	36,158	80,683	644,163
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	0	(2,394)	0	(2,394)
Financial liabilities at amortised cost	(5,820)	0	0	(5,820)
Total financial liabilities	(5,820)	(2,394)	0	(8,214)
Net financial assets	521,502	33,764	80,683	635,949

NOTES TO THE PENSION FUND ACCOUNTS

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market Risk

This is the risk that financial loss could arise as a result of fluctuations in interest rates, foreign exchange rates, credit spreads and equity and commodity prices. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuers or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

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

Asset type	Potential market movements (+/-)
Global Equities	15.30%
Total bonds plus index linked	4.93%
Cash	0.02%
Alternatives	7.21%
Property	6.16%

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

Asset type	Value	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Global Equities	302,548	15.30%	348,838	256,258
Total bonds plus index linked	200,408	4.93%	210,288	190,528
Cash	0	0.02%	0	0
Alternatives	80,683	7.21%	86,500	74,866
Property	36,158	6.16%	38,385	33,931
Total Assets	619,797		684,011	555,583

NOTES TO THE PENSION FUND ACCOUNTS

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

Interest rate risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate risk is monitored and assessed against the strategic asset allocation benchmark.

The Fund's direct exposure to interest rate movements as at 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2012
	£000
Cash and cash equivalents	9,869
Cash Balances	6,983
Fixed interest securities	200,408
Total	217,260

Interest rate risk sensitivity analysis
The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	9,869	99	(99)
Cash Balances	6,983	70	(70)
Fixed interest securities	200,408	2,004	(2,004)
Total	217,260	2,173	(2,173)

Currency risk
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2012.

Currency exposure - asset type	Asset Value as at 31 March 2012
	£000
Overseas quoted securities	202,415
Overseas quoted securities - pooled	84,109
Overseas un-quoted securities	20,212
Overseas property	15,278
Overseas bonds (quoted)	83,991
Total overseas assets	406,005

Currency risk - sensitivity analysis
Following analysis of historical data in consultation with the Fund's performance management provider (WM Company), the Council considers the likely volatility associated with foreign exchange rate movements to be 14% (as measured by one standard deviation).

A 14% fluctuation in the currency is considered reasonable based on the WM Company's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

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

NOTES TO THE PENSION FUND ACCOUNTS

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

A 14% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset Value as at 31 March 2012	Change in net assets available to pay benefits	
		+14%	-14%
	£000	£000	£000
Overseas quoted securities	202,415	230,753	174,077
Overseas quoted securities - pooled	84,109	95,884	72,334
Overseas un-quoted securities	20,212	23,042	17,382
Overseas property	15,278	17,417	13,139
Overseas bonds (quoted)	83,991	95,750	72,232
Total overseas assets	406,005	462,846	349,164

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council investments in money market funds with a AAA rating from a leading rating agency.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2012 was £6.9 million (£8.3 million at 31 March 2011). This was held with the following institutions:

Summary	Rating at 31 March 2012	Balances as at 31 March 2012 -100 BPS * £000
Money Market Funds		
Goldman Sachs	AAA	6,814
Bank deposit Account		
Royal Bank of Scotland		169
Total		6,983

* BPS - Basis Points, 100BPS = 1%

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet it's commitments.

The Council has immediate access to its Pension Fund cash holdings including cash invested in money market funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Liquid assets are those assets which will take longer than three months to convert into cash.

All financial liabilities at 31 March 2012 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

10. Pension Fund Auditors Report

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Croydon Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Deputy Chief Executive and Executive Director of Corporate Resources and Customer Services and auditor

As explained more fully in the Statement of the Deputy Chief Executive and Executive Director of Corporate Resources and Customer Services Responsibilities, the Deputy Chief Executive and Executive Director of Corporate Resources and Customer Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the pension fund's financial statements:

- Give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

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

Philip Johnstone
District Auditor
Audit Commission
First Floor Millbank Tower
London
SW1P 4HQ
27 September 2012

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 5.6% p.a., rather than the rate as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £951 million.

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

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