

Croydon Council

REPORT TO:	PENSION COMMITTEE 9 September 2014
AGENDA ITEM:	6
SUBJECT:	2013/2014 Pension Fund Annual Report
LEAD OFFICER:	Director of Finance and Assets (Section 151 Officer)
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report relates to the draft Croydon Council Pension Fund 2013/2014 Annual Report.	
FINANCIAL SUMMARY: There are no direct financial consequences associated with this report although the Annual Report does incorporate the financial statements for the Pension Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

- 1.1 The Committee is asked to approve the Croydon Council's 2013/2014 Pension Fund Annual Report as attached at Appendix A to this report.

2. EXECUTIVE SUMMARY

- 2.1 This report asks the committee to approve the draft 2013/2014 Croydon Pension Fund Annual Report (Appendix A).

3. DETAIL

- 3.1 A draft of the 2013/2014 Croydon Pension Fund Annual Report (the Annual Report) is attached at Appendix A to this report. The draft includes the final statement of accounts for the Pension Fund and the Annual Governance report, prepared by the Fund's external auditors, commenting on the final statement of accounts.

3.2 The Annual Report includes links to other publications including the Statement of Investment Principles and the Funding Strategy Statement.

3.3 Members are invited to comment on the content and presentation of the draft Annual Report. Following Committee's approval of this draft, subject to any amendments required, the Annual Report will be published on the Croydon Pension Fund's website.

4. RECOMMENDATIONS

4.1 The Committee is asked to approve the draft Annual Report.

5 FINANCIAL CONSIDERATIONS

5.1 There are no direct financial consequences associated with this report although the Annual Report does incorporate the financial statements for the Pension Fund.

6. OTHER CONSIDERATIONS

6.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

7. COMMENTS OF THE SOLICITOR TO THE COUNCIL

7.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor & Monitoring Officer

CONTACT OFFICER

Nigel Cook, Head of Pensions and Treasury,
Chief Executive's Department, ext. 62552

BACKGROUND DOCUMENTS:

1. Pension Fund Annual Report
2. Funding Strategy Statement
3. Governance Compliance Statement
4. Statement of Investment Principles
5. Communications Policy
6. Pension Committee Members Training Log
7. The Audit Findings, Grant Thornton



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Foreword

Nigel Cook to prepare/ June:

Speak with chair for picture/signature and text 16/07/14 NC emailing to find out

Councillor John Wentworth
Chairman of the Pension Committee

1. Management & Advisers

Pension Committee:

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

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

The Committee includes seven voting Members of the Council and five non-voting members: two pensioner representatives, one co-opted members and one employee representative. The members of Pensions Committee during the 2013/2014 Municipal year are listed below:

Councillors:

Chairman:	Dudley Mead
Vice-Chairman:	Jan Buttinger
Members:	Simon Hall Maggie Mansell Steve O'Connell John Wentworth Donald Speakman
Reserve Members:	Eddy Arram, Graham Bass, Carole Bonner Matthew Kyeremeh, Ian Parker, Raj Rajendran Sue Winborn

Non-voting members:

Pensioners' Representatives:	Gilli Driver Peter Howard
Co-opted Members:	Mike Brakes
Staff Representative:	Isa Makumbi

The Committee is supported by officers and independent external advisers.

Administering Authority:

The London Borough of Croydon Pension Fund
Finance and Assets, Chief Executive's Department
London Borough of Croydon
11A Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Richard Simpson
Director of Finance & Deputy S151 Officer

Investment Advisors:

Ian Bailey - AON Hewitt
Valentine Furniss – Independent Adviser

Actuary:

Hymans Robertson
20 Waterloo Street
Lanarkshire
Glasgow G2 6DB

Custodian of Assets:

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

Auditor:

Grant Thornton UK LLP (External), Deloitte (Internal)

Bank:

Royal Bank of Scotland

Legal Advisors:

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

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

AVC Provider:

Prudential
Laurence Pountney Hill
London EC4R 0HH

National Association of Pension Funds (NAPF):

Membership number : 3547

2. Administrators to the Fund

2.1. Fund Managers:



2.2. Administrators to the Fund:



3. Publications

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

Funding Strategy Statement

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

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

Governance Compliance Statement

The administering authority of a Local Government Pension Scheme (LGPS) is required to publish a Governance Compliance Statement. The statement aims to make the administration and stewardship of the scheme more transparent and accountable to stakeholders and provides the following details:

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

Statement of Investment Principles (SIP)

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

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

Communication Policy

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

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

Training Log

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

4. Membership

4.1. Organisations

4.1.1. Admitted:

Apetito	Interserve
BRIT School	London Hire Services Ltd
Cabrini Children's Society	Mayday Travel Ltd
Carillion Integrated Services	Olympic (South) Ltd
Churchill Services	Quadron Services
Creative Environmental Networks	Roman Catholic Archdiocese of Southwark
Croydon Community Mediation	Ruskin Private Hire
Croydon Voluntary Action	Skanska Construction
Eldon Housing Association	Sodexo Ltd
EM Highway Services Limited	Veolia Environmental Services (UK) Ltd
Fairfield (Croydon) Ltd	Vinci Facilities
Fusion	Wallington Cars and Couriers
Ground Control	
Impact Group Ltd	

4.1.2. Scheduled:

Addington High Academy	Oasis Academy Byron
Aerodrome Primary Academy	Oasis Academy Coulsdon
Applegarth Academy	Oasis Academy Shirley Park
ARK Oval Primary Academy	Pegasus Academy
Atwood Primary School	Riddlesdown Collegiate
Castle Hill Academy	Robert Fitzroy Academy
Coulsdon College	Shirley High School Performing Arts College
Croydon Care Solutions	St Cyprian's Greek Orthodox Primary School Academy
Croydon College	St James the Great RC Primary and Nursery School
David Livingstone Academy	St Joseph's College
Forest Academy	St Thomas Becket Catholic Primary School
Gonville Academy	The Quest Academy
Harris Academy Purley	West Thornton Primary Academy
Harris Academy South Norwood	Wolsey Junior Academy
Harris Academy Upper Norwood	Woodcote High School
Harris City Academy Crystal Palace	
Harris Primary Academy Benson	
Harris Primary Academy Kenley	
John Ruskin College	
Norbury Manor Business and Enterprise College for Girls	

4.2. Resources for Members

4.2.1. Croydon Council Pension Website

We launched our new website this year, it was designed and created by Hymans Robertson and can be found at <http://www.croydonpensionscheme.org/>

4.2.2. National Local Government Pension Scheme Web Site

The web site address is www.lgps.org.uk and the address for the new 2014 scheme is www.lgps2014.org.

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, it is updated regularly to ensure members have access to the latest up to date information.

4.2.3. Additional Voluntary Contributions

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

Further information can be obtained by calling the helpline on 0845 607 0077 or by visiting the website www.pru.co.uk/rz/localgov/.

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

4.2.4. 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.gov.uk/find-lost-pension

The Pension Tracing Service can help ex-members of pension schemes, who may have lost touch with their previous employers, to trace their pension entitlements.

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

The Pensions Section
11A, Bernard Weatherill House
8 Mint Walk
Croydon, CR0 1EA

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.

Members can log in to the service at: <https://croydon.pensiondetails.co.uk> and request an activation code.

5. Main Features of the Scheme

5.1. Eligibility for membership

Membership is generally available to employees of participating employers who have contracts of at least 3 months, are under age 75, and are not eligible for membership of other statutory pension schemes. Employees of designating bodies or admitted bodies can only join if covered by the relevant agreement.

5.2. Benefits on death in service

A lump sum is payable on death in service, normally equivalent to three years pay. The administering authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's widow, widower, civil partner, nominated cohabiting partner and dependent children.

5.3. Benefits on retirement

For membership from April 2008 onwards, pension benefits are calculated as 1/60th of final pay for each year of membership. Benefits for earlier membership consist of a pension calculated as 1/80th of final pay for each year of membership plus a lump sum of three times the pension. Actual membership may be enhanced automatically in cases of ill health retirement. Employers may choose to increase membership or pension. Members can normally exchange some pension to provide a bigger lump sum.

5.4. Benefits on death after retirement

A death grant is payable if less than 10 years pension has been paid and the pensioner is under age 75 at the date of death, in which case the balance of 10 years of pension is paid as a lump sum. Pensions are also generally payable to the pensioner's widow, widower, civil partner, nominated cohabiting partner and dependent children.

5.5. Extra benefits

The scheme offers several ways for members to improve benefits:

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

5.6. Employee contributions

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

The table below sets out the contribution bands which were effective from 1 April 2013. These are based on the pay bands for 2012/13 as increased by the September 2012 CPI figure of 2.2%, with the result rounded down to the nearest £100. Where a member had an annual incremental increase, this may have resulted in them paying a higher rate of contributions from April 2013.

Band	Salary Range	Contribution Rate
1	£0 - £13,700	5.5%
2	£13,701 - £16,100	5.8%
3	£16,101 - £20,800	5.9%
4	£20,801 - £34,700	6.5%
5	£34,701 - £46,500	6.8%
6	£46,501 - £87,100	7.2%
7	More than £87,100	7.5%

5.7. Age of retirement

Normal retirement age is age 65, but:

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

5.8. Pensions Increases

Pensions payable to members who retire on health grounds and to dependants in receipt of a pension in respect of a deceased member are increased annually by law in line with increases in inflation. Pensions payable to other members who have reached the age of 55 also benefit from this annual inflation proofing. Where a member has an entitlement to a Guaranteed Minimum Pension (which relates to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions through the State Pension.

LGPS pensions are increased in line with the rise in the Consumer Price Index (CPI), in accordance with the Pensions Increase Act 1971. Although pensions are increased in April, they are based on the rise in the CPI over the 12 months to the previous September. The pensions increase calculation for April 2013 was based on the increase in CPI during the 12 months preceding September 2012 and was set at 2.2%.

5.9. Pension Fund Fraud / National Fraud Initiative

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

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

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

6. Changes to the Local Government Pension Scheme

6.1. Public Service Pensions Act 2013

The Public Service Pensions Bill received Royal Assent on 25 April 2013 becoming the [Public Service Pensions Act 2013](#).

The Act introduces a number of new terms and provides the framework for the changes to public sector pension schemes. Some of the main areas it covers includes:

- Provides for scheme regulations to be made within a common framework and establishes new Career Average Revalued Earning schemes across public sector schemes
- For the majority of scheme members it links the normal retirement age to State Pension age (some exceptions for the armed forces, police and firefighters)
- Develops a new governance framework and introduces new terms including the Responsible Authority (the Secretary of State for Communities and Local Government), the Scheme Manager (the Administering Authority), the Pension Board (assisting the Scheme Manager at local level) the Scheme Advisory Board (providing advice to the Responsible Authority and the Pension Boards).
- Requires a cost control mechanism to keep the ongoing cost of the schemes within defined margins with steps outlining action to be taken.

6.2. Pensions Bill 2013/14

The LGA in conjunction with trade union colleagues issued a briefing note for the second reading of the Pensions Bill which took place on 17 June 2013. The briefing note highlighted the unintended consequences for public service pension schemes should the removal of contracting out for occupational schemes take place when a single tier state pension is introduced from April 2016. To read the briefing note can be found at: http://www.local.gov.uk/web/guest/legislation/-/journal_content/56/10180/4032027/ARTICLE

The LGA will be making representations on the financial implications the abolition of contracting out will have for both employees and employers in the LGPS as the Bill makes its way through committee stage in the House of Commons.

6.3. Pensions Tax Relief - Individual Protection from the Lifetime Allowance Charge

On 5 December 2012 the Government announced that the lifetime allowance would be reduced from £1.5 million to £1.25 million from April 2014. The Government also announced that it would be consulting on a “personalised protection regime” for individuals with pension pots valued at more than £1.25 million on 6 April 2014.

On 10 June 2013 HMRC published the consultation: Pensions Tax Relief – Individual Protection from the Lifetime Allowance Charge setting out the framework of how the individual protection regime will work. It will protect individuals from the lifetime allowance charge on any pension savings they have on 5 April 2014, which has been accumulated with UK tax relief with a value of between £1.25 million and £1.5 million. The consultation closed on 2 September

2013. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205777/130607_IP14_Condoc_Final.pdf

6.4. DWP guidance: Deferring your State Pension Age

On 18 June 2013, DWP published guidance on ‘deferring your State Pension Age’. The full report can be found at:

<https://www.gov.uk/government/publications/deferring-your-state-pension>

6.5. Annual fraud indicator 2013 report published

The annual fraud indicator for 2013 was published in June and makes reference to the £7.1 million lost due to pension fraud in local government (2011 figures). In total, public sector pension schemes lost £20.8 million due to fraud in 2011. The full report can be found

at: <https://www.gov.uk/government/publications/annual-fraud-indicator--2>

6.6. Written Ministerial Statement: Academies and LGPS Liabilities

On 2 July 2013 the Secretary of State for Education, Michael Gove, issued a Written Ministerial Statement regarding academies and outstanding LGPS liabilities. This statement sets out details of a guarantee that any outstanding LGPS liabilities on academy closure will be met by the Department for Education. This guarantee came into force on the 18 July 2013. In addition the statement outlined that a consultation will be issued by DCLG on proposals to amend the LGPS regulations so as to require local authorities to provide actuarial pooling should an academy wish to take up such an option. The full report can be found at: <https://www.gov.uk/government/speeches/academies-and-local-government-pension-scheme-lgps-liabilities>

6.7. Finance Act 2013

The Finance Act 2013 received royal assent on 17 July 2013. It includes a wide range of taxation measures and these include the reduction of the Lifetime Allowance from £1.5 million to £1.25 million from tax year 2014/15 onwards, the reduction of the annual allowance from £50,000 to £40,000 from tax year 2014/15 onwards and various transitional provisions.

6.8. Marriage (Same Sex Couples) Act 2013

The Marriage (Same Sex Couples) Act 2013 received royal assent on 17 July 2013. Section 16 of the Act, headed “Survivor benefits under occupational pension schemes” provides that the Secretary of State must arrange for a review of the relevant differences in survivor benefits in occupational pension schemes, being differences between:

- a) same sex survivor benefits and opposite sex survivor benefits provided to widows and widowers,
- b) opposite sex survivor benefits provided to widows and opposite sex survivor benefits provided to widowers. and review the costs, and other effects, of securing that relevant differences in survivor benefits are eliminated by the equalisation of survivor benefits.

The review must, in particular, consider the extent to which same sex survivor benefits are provided in reliance on paragraph 18 of Schedule 9 to the Equality Act 2010 and the extent to which same sex survivor benefits and opposite sex survivor benefits are calculated by reference to different periods of pensionable service.

6.9. Pensions and Fair Deal

New guidance on the Fair Deal policy was published by the Government on 7 October 2013. The guidance implements the reform of the Fair Deal policy to allow staff compulsorily transferred out of the public sector to remain in a public service pension scheme. In addition to the guidance, the Government's response to the consultation on the application of the policy to staff that have already been transferred out under Fair Deal has also been published. Both documents can be accessed using the following links:

<https://www.gov.uk/government/publications/fair-deal-guidance>

<https://www.gov.uk/government/consultations/further-consultation-on-the-fair-deal-policy>

6.10. DCLG Consultation – Pooling arrangements for Academies within the LGPS

On the 7 October 2013 DCLG issued a six week consultation which sets out to seek views on potential pooling arrangements within the LGPS regulations for Academies and Local Authorities. The consultation includes rationale to introduce Academy and Local Authority pooling arrangements with the following options for possible inclusion in scheme regulations:

- requiring that pension arrangements for an Academy, or several Academies, and the ceding local authority are pooled together should the Academy want this; or
- providing that the Academy, or several Academies, and the ceding local authority should be pooled together without any choice between the parties; or
- providing that the schools sector – Academies and local authority maintained schools – are pooled together.
- providing pooling arrangements for Academies only.

6.11. The Pensions Regulator Consultation on draft Codes of Practice

On the 10 December 2013 the Pensions Regulator (tPR) published a consultation on draft codes of practice for public service pension schemes to meet governance and administration requirements set out in the Public Service Pensions Act 2013.

TPR is also consulting on a draft regulatory strategy describing how it will educate and enable public service schemes to meet the standards of practice outlined in the code; but where necessary taking enforcement action to ensure the underlying legal requirements are adhered to.

6.12. Impact on the LGPS of increased trivial commutation and small pot payment limits

The Chancellor of the Exchequer as part of Budget 2014 announced an increase in the trivial commutations limit from £18,000 to £30,000 and an increase to the small pot payments limit from £2,000 to £10,000. These increases take effect from 27 March 2014 and will impact on all schemes including the LGPS. Details of these changes as well as the draft amending clauses to the Finance Act 2004 can be found in HMRC documentation available at

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293898/Pension_flexibility.pdf

6.13. The New LGPS 2014

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

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

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

- Career Average Revalued Earnings (CARE)
- 1/49th accrual rate with revaluation based on Consumer Prices Index (CPI)
- Retirement linked to State Pension Age (SPA)

- Contributions based on actual pay (including part time employees) with the average employee contribution remaining at 6.5%. No change to the expected overall net yield from employee contributions
- Retention of banded employee contributions, but with an extension to the number of bands with little or no increase in the employee rate at the lower bands but more significant increases at higher pay bands, even after allowing for tax relief
- '50/50' scheme option enabling members to pay half contributions for half the pension, with most other benefits remaining as they are currently
- Benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current retirement age
- Outsourced scheme members will be able to stay in the scheme on first and subsequent transfers
- Vesting period extended from 3 months back to two years.

All other terms remain as in the current scheme including death in service benefits, ill-health provision and the lump sum trade-off.

6.13.1. LGPS 2014 – Communications

The Local Government Pensions Committee (LGPC) have produced a wealth of guides, leaflets and publications for scheme administrators, employers, payroll sections and scheme members to assist with understanding and communicating the new scheme.

6.13.2. Payroll and HR Specifications

Following meetings with interested stakeholders, a payroll specification to assist employers and their software suppliers when developing payroll systems for April 2014 was published. In addition an HR specification has also been produced which contains information on the processes required to administer the scheme from April 2014. Both are expected to be updated as and when required in the run-up to LGPS 2014.

Both specifications are available online from a new website www.lgpsregs.org. This new website will be the home of all employer and administering authority related information on the LGPS from April 2014. As well as the guidance noted above it will also contain the timeline regulations for the new scheme, access to statutory and GAD guidance, links to other related legislation and in time the aim is to provide the facility to submit queries via the website.

- Administration and Employer Guides and Forms
- Following the laying of the LGPS (Transitional Provisions, Savings and Amendment)

Regulations 2014 a number of documents were released, some new and others updated to reflect the release of the laid Transitional Regulations. These include:

- Discretions policy document
- Underpin paper
- Aggregation paper
- Annual benefits statement paper
- Discretions list
- Revaluation paper
- Survivors' benefits paper
- 85 year rule paper

These papers are available at <http://www.lgpsregs.org/index.php/guides/administration-guides-to-the-2014-scheme>

6.13.3. Terminology Document

A 'Terminology Document' to help communicate the changes to the Scheme has been published. In particular a number of new terms are required to explain the new scheme from 1 April 2014. By outlining agreed ways of communicating these terms it's hoped that it will assist scheme managers (i.e. administering authorities) and other LGPS stakeholders in communicating a cohesive and consistent message relating to LGPS 2014 to all stakeholders including scheme members. The 'Terminology Document' can be found at: <http://www.local.gov.uk/web/lgaworkforcepensions/lgps2014comms>

6.13.4. Scheme members website

On the 18 November 2013 the LGPS 2014 member website (www.lgps2014.org) was re-launched. This re-launch included a new look for the website as well as updated content and information. As part of the re-launch of www.lgps2014.org three topic based videos were also released. The three topics covered include:

- Contributions and the flexibility to pay more or less
- How is my pension worked out?
- When can I take my pension?

6.13.5. Account Modeler

In February a pensions account modeler designed to help members understand how pension accounts work was added to www.lgps2014.org. The modeller shows how a pension builds up from April 2014, it is not designed to provide an estimate of benefits. The facility allows members to input pensionable pay, and figures for assumed inflation and pay increases and also view the impact of electing for the 50/50 section of the scheme on pension build up in the LGPS.

6.13.6. Contribution Calculator

A Contribution Calculator for the new scheme was launched on the 13 March 2014. The calculator requires users to input some information including their annual pensionable pay, pay frequency, section of the scheme they are in and whether they are over State Pension Age. The results will include both the gross and net contribution amount for the new scheme. This is available at: <http://www.lgps2014.org/content/what-will-new-scheme-cost-me>

6.13.7. Leaflets and Communication Plan

A suite of topic based leaflets are available on the LGA's website (<http://www.local.gov.uk/web/lgaworkforcepensions/lgps2014comms>) and include the following:

- Paying into the LGPS before 1st April 2014
- Scheme changes leaflet
- Contributions and the flexibility to pay more or less
- How is my pension worked out?
- When can I take my pension?
- Mythbusting LGPS 2014

The LGPS 2014 Communications Plan was also published on the LGA's website on the 18 November 2013 and includes updated release dates for various communication items as well as additional information including a planned poster, communication items for elected members on LGPS 2014 and the administering authority (scheme manager) guide.

6.13.8. Employee Guides

A full and brief guide for employees is available

at: <http://www.lgpsregs.org/index.php/guides/employees-guides>

6.13.9. LGPS 2014 – Legislation

The Local Government Pension Scheme Regulations 2013 (SI 2013/2356) were made on the 12 September and laid before parliament 19 September 2013, coming into force 1 April 2014.

The Local Government Pension Scheme (LGPS) (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525) were made on the 5 March 2014, laid before parliament 10 March 2014, coming into force 1 April 2014.

All legislation relating to the LGPS 2014 can be found at: <http://www.lgpsregs.org/>

6.13.10. LGPS 2014 - Consultations

The Department for Communities and Local Government (DCLG) issued several consultations on draft regulations for LGPS 2014 during the year, these can be found at: <http://www.clg.heywood.co.uk/views/availableDocuments>

7. Management of the Assets

The distribution of the Fund's assets among investment managers at 31st March 2014 is outlined below.

Investment Manager	Investment Mandate	% of Fund
Fidelity	Global Equities including pooled emerging markets (Segregated)	16.77%
Franklin Templeton	Global Equities (Segregated)	12.12%
Global Thematic Partners	Global Thematic Equities (Segregated)	11.62%
Legal & General	Global Equity (Pooled)	12.15%
Standard Life	Corporate Bond Fund and Absolute Return Global Fund (Pooled)	15.22%
Wellington	Sterling Core Bond (Pooled)	6.78%
Pantheon	Private Equity Invest in unquoted companies (Pooled FofF) (US Dollar & Euro)	3.08%
Equitix	Private Equity – PFI Projects (Pooled)	3.53%
Knightsbridge	Private Equity – Venture Capital (Pooled FofF) (US Dollar)	1.05%
Bluecrest	Fund of Hedge Funds (Pooled FofF)	3.97%
Henderson Global	European Property Funds	1.48%
Schroder	UK Property Funds	7.24%
All Fund Managers – Cash Management	Maximising short term returns prior to the investment of funds	0.87%
LB of Croydon Cash Management	Cash LIBID 7 day notice deposit account	0.65%
Goldman Sachs Account	AAA Rated Money Market Fund	0.80%
Deposit at Lloyds Bank	Fixed Deposit	2.68%
Total		100.00%

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

Asset Allocation

Following consultation with the Fund's investment advisors, a revised target asset allocation was implemented in 2012/13. The target asset allocation is outlined in the table below.

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

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

7.1. Fees

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

7.2. Monitoring the Investment Managers

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

7.3. Realisation of Investments

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

7.4. Pension Committee Arrangements

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

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

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

7.5. Custody

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

8. Investment Report

8.1. General

During 2013/14, local authority pension funds experienced an average increase in value of 6.0%. During the same period, CPI inflation increased by 1.8% and average weekly earnings increased by 1.7%.

Equity markets continued to perform strongly during the financial year ending 31 March 2014. The UK equity market returned 11.3% ahead of Japan at 0.5% but behind North America and Europe who returned 11.9% and 15.1% respectively. The Pacific and Emerging Markets were the worst performing regions, returning -7.1% and 2.1% respectively. Whilst UK bonds (gilts) returned a disappointing -2.1% they outperformed the -6.1% returns of overseas bonds. Property returned 11% over the year to 31 March 2014

8.2. Strategy

The Pension Committee reviews its strategy for allocating the Pension Fund assets amongst various investment categories to coincide with the Actuarial Triennial Valuation. The revised asset allocation strategy is intended to generate an investment return on the Fund in line with the requirements of the Actuary's recovery plan as set out in the Actuarial Triennial Valuation report. The most recent triennial valuation was calculated as at the 31st of March 2013.

The current strategy was agreed during the first quarter of 2013. In light of the recent triennial valuation, asset allocation of the Fund will be reviewed towards the end of 2014.

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

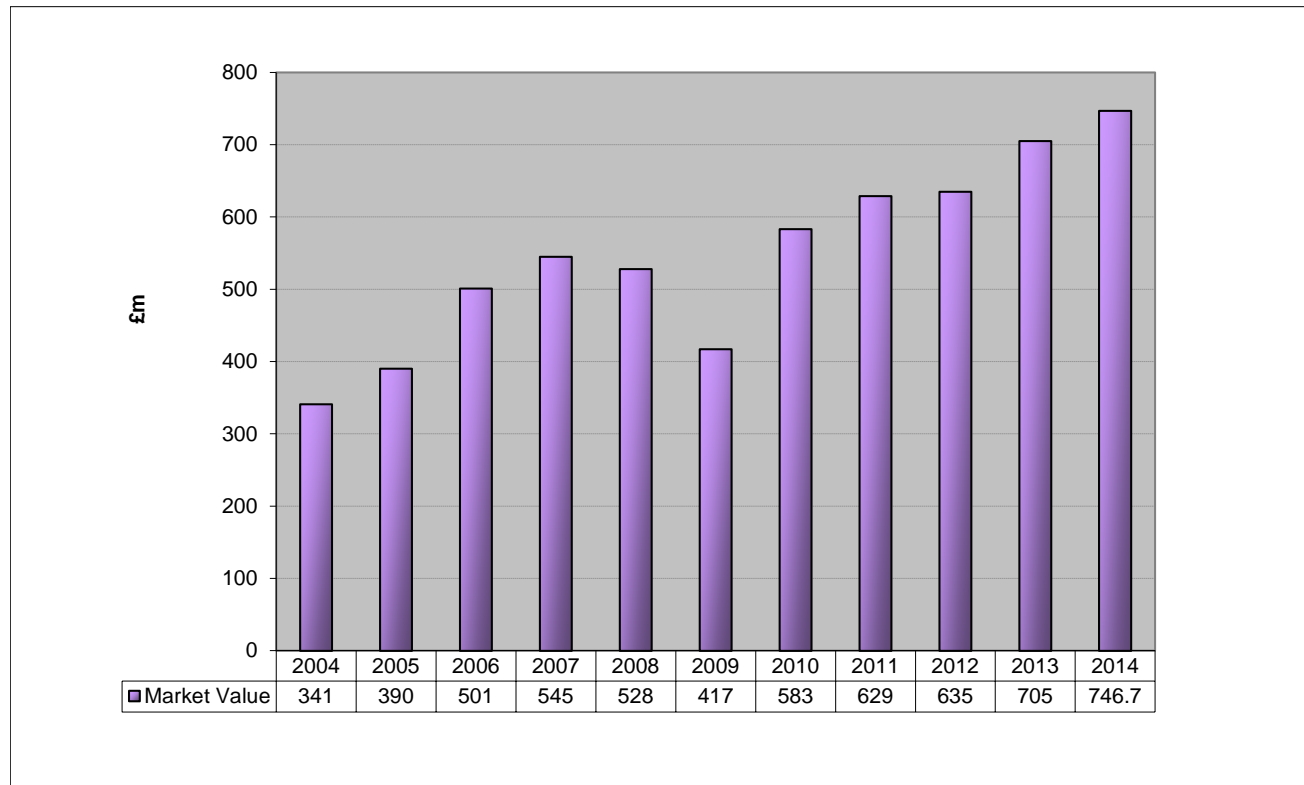
8.3. Performance

The Fund's performance is compared with the Council's own customised benchmarks and to the average return from 85 local authority pension funds, as measured by WM Company. During the 2013/14 financial year the Fund's return of 5.4% underperformed its customised benchmark of 6.7% by 1.3%. The Fund also underperformed the average return for local authorities of 6%.

As at the 2013 Actuarial Valuation the Fund's funding level was 66.3%, a marginal increase from the 66% funding level as calculated at the 2010 Actuarial Valuation. The 2013 triennial valuation contribution rates took effect from 1 April 2014.

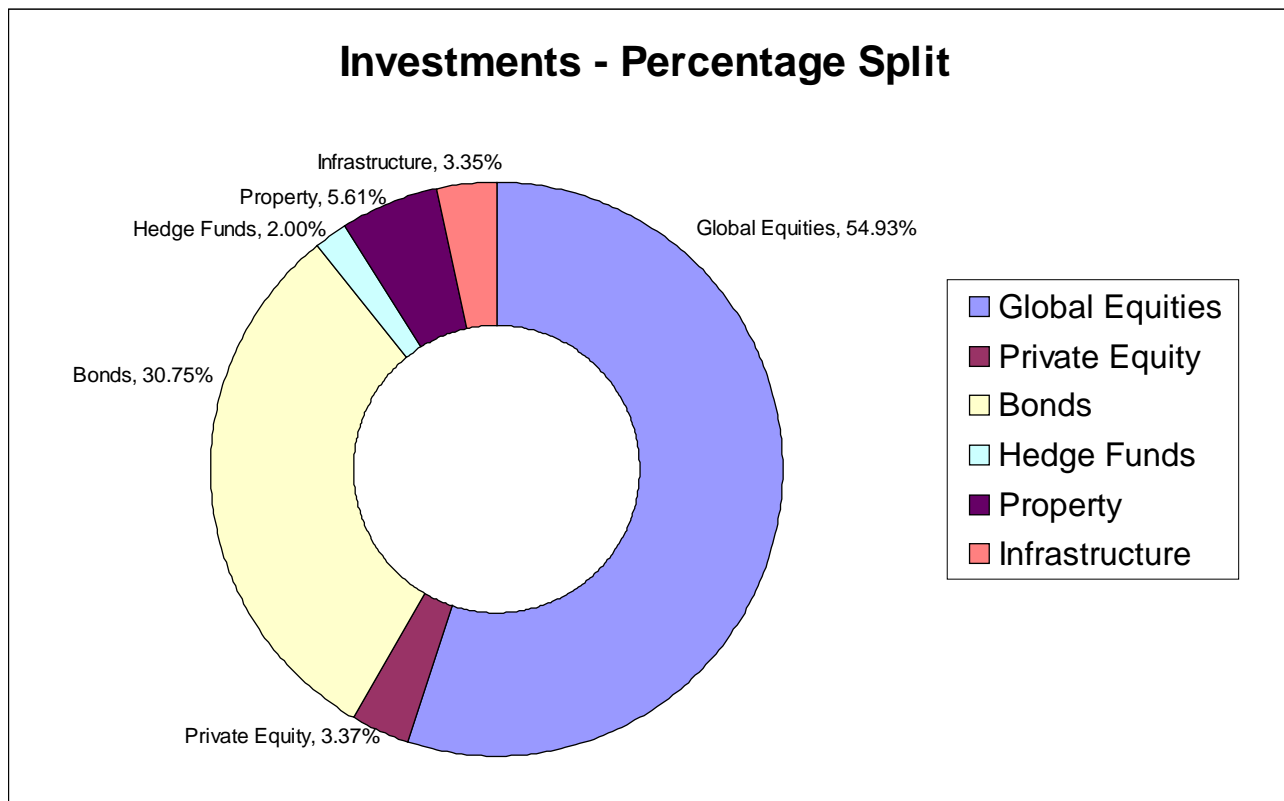
8.4. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2014 were £741.8 million compared with £341 million at 31 March 2004. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2013/14 £m	%
Market Value of investments	708.3	95.48
Other Balances held by Fund Managers	1.1	0.15
Cash held by Fund managers	6.4	0.86
LBC Fund Net Current Assets	26.0	3.51
Total at the end of the year	741.8	100.0

8.5. Distribution of Assets by Market Value – to do



Investments	2013/14 £000s	% of Investments
Global Equities	390.7	52.33
Private Equity	30.6	4.10
Bonds	164.4	22.02
Hedge Funds	29.7	3.97
Property (of which UK 7.4% European 1.6%)	66.2	8.87
Infrastructure	26.7	3.59
Cash	38.3	5.12
Total at the end of the year	746.7	100.0

8.6. Statistics 2013/2014

Returns	Croydon Fund	Average Local Authority
1 year (% per year)	5.4	6.4
3 years (% per year)	5.9	7.5
5 years (% per year)	11.8	12.7
10 years (% per year)	7.6	7.8

Pension Fund Investment Distribution:	Croydon Fund	Average Local Authority
Global Equities	52.33	62.60
Private Equity	4.10	4.20
Bonds	22.02	16.50
Hedge Funds	3.97	2.20
Property	8.87	7.50
Infrastructure	3.58	0.80
Cash	5.12	3.00

8.7. Top 25 Global Holdings

	Market Value at 31 March 2014	% of Total Global Equity Investment
APPLE INC	6,359,526	1.93%
ROCHE HLDG AG	4,652,823	1.41%
AMAZON COM INC	3,288,244	1.00%
ADOBE SYSTEMS INC	3,221,641	0.98%
DANAHER CORP	2,900,885	0.88%
SYNGENTA AG	2,773,505	0.84%
RECKITT BENCKISER GROUP PLC	2,741,046	0.83%
UNITED OVERSEAS BANK	2,736,806	0.83%
SAMSUNG ELECTR	2,728,943	0.83%
VISA INC	2,691,280	0.82%
NOBLE GROUP	2,668,409	0.81%
UNITE UK STUDENT ACCOMODATION	2,629,634	0.80%
UMICORE NPV	2,599,301	0.79%
CSL	2,574,807	0.78%
MTU AERO ENGINES	2,507,040	0.76%
DISCOVERY COMMUNICATIONS INC	2,480,581	0.75%
DASSAULT SYSTEMES	2,458,884	0.75%
INTERCONTINENTAL EXCHANGE INC	2,432,481	0.74%
ARM HOLDINGS	2,394,000	0.73%
ROYAL DUTCH SHELL PLC	2,383,461	0.72%
ALKERMES PLC	2,379,630	0.72%
YASKAWA ELECTRIC	2,320,675	0.71%
BURBERRY GROUP	2,318,222	0.70%
DISCOVER FINANCIAL SERVICES	2,268,752	0.69%
BANK OF NOVA SCOTIA	2,261,786	0.69%
	70,772,361	21.49%

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, Carillion Integrated Services, Churchill Services, Creative Environmental Networks, Croydon Citizen's Advice Bureau, Croydon Community Mediation, Croydon Voluntary Action, Eldon Housing Association, EM Highway Services Ltd, Fairfield (Croydon) Ltd, Fusion, Ground Control, Impact Group Ltd, Interserve, London Hire Services Ltd, Mayday Travel Ltd, Olympic (South) Ltd., Quadron Services, Roman Catholic Archdiocese of Southwark, Ruskin Private Hire, Skanska Construction, Sodexo Ltd, Veolia Environmental Services (UK) Ltd, Vinci Facilities, Wallington Cars and Couriers.

Scheduled:

Addington High Academy, Aerodrome Primary Academy, Applegarth Academy, ARK Oval Primary Academy, Atwood Primary School, Castle Hill Academy, Coulsdon College, Croydon Care Solutions, Croydon College, David Livingstone Academy, Forest Academy, Gonville Academy, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Upper Norwood), Harris City Academy (Crystal Palace), Harris Primary Academy (Benson), Harris Primary Academy (Kenley), John Ruskin College, Norbury Manor Business and Enterprise College for Girls, Oasis Academy Byron, Oasis Academy Coulsdon, Oasis Academy Shirley Park, Pegasus Academy, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Shirley High School Performing Arts College, St Cyprian's Greek Orthodox Primary School Academy, St James the Great RC Primary and Nursery School, St Joseph's College, St Thomas Becket Catholic Primary School, West Thornton Primary Academy, Wolsey Junior Academy, Woodcote High School.

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, one co-opted non-voting member and a non-voting employee representative. In addition, the Committee is supported by officers and external advisors.

STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND

1. GENERAL PRINCIPLES

The financial statements have been prepared in accordance with the provisions of Sections 6.5.1 to 6.5.5 of the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice on Local Authority Accounting in the United Kingdom is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

2. STATEMENT OF INVESTMENT PRINCIPLES

This is published on the Croydon Pension Scheme web page <http://www.croydonpensionscheme.org/>

3. BASIS OF PREPARATION

Accruals

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

Going Concern

The Pension Fund Accounts have been prepared on a going concern basis. That is the accounts assume that the Fund will continue in operational existence for the foreseeable future. This means, in particular, that the accounts assume that there is no intention to curtail significantly the scale of operations.

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

- ▶ **Interest income:** Interest income is recognised in the fund account as it accrues.
- ▶ **Dividend income:** Dividend income is recognised by our fund managers on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- ▶ **Distributions from pooled funds:** Distributions from pooled funds are recognised by our fund managers at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a financial asset.
- ▶ **Movement in the net market value of investments:** Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are recharged at year end from the Authority to the Pension Fund.

Investment management expenses

All investment management expenses are accounted for an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. A proportion of the Council's costs representing management time spent by officers on investment management are recharged to the Fund.

STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND**Financial assets**

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

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 23).

Assumptions made about the future and other major sources of estimation uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year.

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund managers with expert advice about the assumptions to be applied.

Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 18).

4. EARLY RETIREMENT COSTS DUE TO REDUNDANCY

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

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014

CONTRIBUTIONS AND BENEFITS

	Note No.	2013/14 £000	2012/13 £000
Employees' contributions:			
London Borough of Croydon		7,779	7,380
Scheduled bodies		1,424	1,095
Admitted bodies		606	468
Employers' contributions:			
London Borough of Croydon		32,008	25,708
Scheduled bodies		5,228	3,988
Admitted bodies		1,832	1,474
Transfer values received	15	2,729	4,076
Early retirement costs recovered	8	712	1,196
		52,318	45,385
Benefits - Pensions		35,714	34,086
- Lump sums	14	8,535	7,349
Payments to and on account of leavers - Refund of contributions		6	9
- Transfer values paid	15	2,568	2,678
Administrative expenses	11	1,744	1,093
		48,567	45,215
Net additions / (withdrawals) from dealings with members		3,751	170

RETURNS ON INVESTMENTS

	Note No.	2013/14 £000	2012/13 £000
Investment income	13	7,096	6,543
Taxes on income	13	(768)	(579)
Net gains / (losses) on currency revaluations and underwriting commissions		221	112
Change in market value of investments:			
Unrealised	3	(10,860)	50,754
Realised	3	39,160	13,675
Investment management expenses	12	(2,005)	(1,332)
		32,844	69,173
Net returns on investments			
Net increase / (decrease) in the Fund during the year		36,595	69,343
Net assets at the start of the year		705,292	635,949
Net assets at the end of the year		741,887	705,292

PENSION FUND ACCOUNTS - NET ASSETS STATEMENT

NET ASSETS STATEMENT AS AT

	Note No.	31 March 2014 £000	31 March 2013 £000
Investments held by the Fund Managers:			
Global equities - segregated funds	2 - 5	284,739	264,296
Global equities - pooled funds	2 - 5	107,866	102,649
Private equity	2 - 5	30,804	22,492
Infrastructure	2 - 5	26,314	22,403
Bonds	2 - 5	164,037	205,413
Hedge funds	2 - 5	29,567	13,334
Property	2 - 5	65,028	37,480
Total Investments held by the Fund Managers		708,355	668,067
Other Balances held by the Fund Managers			
Outstanding dividends and tax reclaimable	9	688	713
Outstanding trades for securities sold	9	2,162	2,570
Outstanding trades for securities purchased	10	(1,736)	(3,282)
Total Other Balances held by the Fund Managers		1,114	1
Cash held by the Fund Managers		6,477	7,830
Total Assets held by the Fund Managers		715,946	675,898
Net Current Assets:			
Debtors	9	1,717	1,544
Cash held by the London Borough of Croydon		4,882	11,752
Cash on deposit with Goldman Sachs		5,950	6,984
Short-term deposit at Lloyds Bank		20,000	15,000
Creditors	10	(6,608)	(5,886)
Net Assets at the End of the Year		741,887	705,292

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.

Actuarial Estimates:

Please refer to the Basis of Preparation section under the Statement of Accounting Policies and Principles for further details on actuarial estimates.

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 2013/14 are as follows:

- ▶ Croydon Council (including schools' non-teaching staff) - 13.1%
- ▶ Scheduled bodies - 13.1%
- ▶ 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. A further triennial Actuarial Valuation was prepared as at 31 March 2013. The contribution rates referred to in the 2013 triennial valuation will take effect from 1 April 2014.

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 'Other Grouped Bodies' overleaf)	1.0	14.1	211	221	231
London Borough of Croydon and Grouped Scheduled Bodies (see 'Grouped Scheduled Bodies' and Note a overleaf)	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)

1. ACTUARIAL POSITION (continued)

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.

Grouped Scheduled Bodies

Croydon College, Coulsdon College, John Ruskin College, St Joseph's College.

Notes

- a. Includes the former Grant Maintained Schools.
- b. 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.
- c. 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 £16,427,000.

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

2. INVESTMENTS

On 3 September 2013, the Pension Committee agreed to authorise the Director of Finance and Assets and Section 151 Officer 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 2013/14 the Pension Committee agreed modifications to the original allocations, the details of which are outlined in Note 25.

2. INVESTMENTS (continued)

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

* The fund fully redeemed its investment with Sarasin on 21 March 2014 and transitioned the proceeds to a passive global equity fund at Legal and General.

** The fund terminated its fund of property funds agreement with Henderson Global Investors on 31 December 2013 and the underlying property funds were in the process of being transferred to Schroder Investment Management at 31 March 2014.

VALUATION OF INVESTMENTS

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

Segregated Global Equities (Fidelity, Franklin Templeton, Deutsche Bank)

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

The BoNYM pricing unit operates under the following pricing guidelines:

Designation of a primary source

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

Use of Secondary Pricing Sources; Client / Manager Price Direction**Missing Prices**

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

Tolerance Checks

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

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

2. INVESTMENTS (continued)**Pooled Global Equity Funds (Sarasin, Fidelity, Franklin Templeton and Legal and General)****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 fund fully redeemed its holdings in Sarasin at 21 March 2014.

Bonds**Standard Life - Trustee Investment plan**

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

Wellington - Sterling Core Bond Plus

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

Private Equity and Infrastructure Investments

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

Hedge Funds

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

Property

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

Cash

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

Short Term Deposits

As at 31 March 2014 the Fund had two fixed term deposits with Lloyds Bank for £5 million and £15 million maturing on 4 April 2014 and 7 April 2014 respectively.

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	264,296	203,102	(200,160)	28,605	(11,104)	284,739
Global equities - pooled funds	102,649	93,230	(91,725)	5,484	(1,772)	107,866
Private equity	22,492	8,147	(749)	803	111	30,804
Infrastructure	22,403	3,500	(3,137)	0	3,548	26,314
Bonds	205,413	883	(42,100)	5,015	(5,174)	164,037
Hedge funds	13,334	15,000	0	0	1,233	29,567
Property	37,480	32,206	(6,209)	(747)	2,298	65,028
	668,067	356,068	(344,080)	39,160	(10,860)	708,355

4. ANALYSIS OF INVESTMENTS

Investments are valued at the close of business on 31 March 2014 in accordance with the valuation methodologies detailed in Note 2.

	2014		2013	
	Market £000	Market %	Market £000	Market %
Global equities - segregated funds (Quoted)				
DB Advisors	85,285	12.0%	81,287	12.2%
Fidelity	110,585	15.6%	99,779	14.9%
Franklin Templeton	88,869	12.5%	83,230	12.5%
Total equities - segregated	284,739	40.1%	264,296	39.6%
Global equities - pooled funds (Quoted)				
DB Advisors	1,343	0.2%	0	0.0%
Fidelity	14,463	2.0%	15,496	2.3%
Franklin Templeton	1,473	0.2%	1,823	0.3%
Sarasin	0	0.0%	85,330	12.8%
Legal and General	90,587	12.8%	0	0.0%
Total equities - pooled	107,866	15.2%	102,649	15.4%
Private Equity (Unquoted)				
Pantheon Ventures	22,948	3.2%	16,974	2.5%
Knightsbridge	7,856	1.1%	5,518	0.8%
Total private equity	30,804	4.3%	22,492	3.3%
Infrastructure (Unquoted)				
Equitix	26,314	3.4%	22,403	3.4%
Total Infrastructure	26,314	3.4%	22,403	3.4%
Bonds (Quoted)				
Standard Life	113,513	16.0%	126,549	18.9%
Wellington	50,524	7.1%	78,864	11.8%
Total Bonds	164,037	23.1%	205,413	30.7%
Hedge Fund of Funds (Unquoted)				
Bluecrest	29,567	4.2%	13,334	2.0%
Total Hedge Fund of Funds	29,567	4.2%	13,334	2.0%
Property (Quoted)				
Henderson Global Investors	11,041	1.6%	11,189	1.7%
Schroder	53,987	7.6%	26,291	3.9%
Total Property	65,028	9.2%	37,480	5.6%
Total investments	708,355	100.0%	668,067	100.0%

4. ANALYSIS OF INVESTMENTS (continued)

Equity markets experienced high volatility during the first half of the 2013/14 accounting period. This was a combination of weak economic news from the Eurozone, fears of a slowing Chinese economy and indications that the Chairman of the Federal Reserve intended to reduce the program of quantitative easing. The FTSE 100 started the year at 6,412 before experiencing a sharp dip to 6,092 and rising to a high of 6,838 in February before finishing the year at 6,598. European equities experience growth in the latter part of year, the US posted mixed performance, UK equities lost value as a result of disappointing earnings and emerging markets suffered on the back of slow growth in China.

5. GEOGRAPHICAL ANALYSIS OF INVESTMENTS

	2014			2013		
	UK £000	Foreign £000	Total £000	UK £000	Foreign £000	Total £000
Global equities - segregated funds (Quoted)						
DB Advisors	6,366	78,919	85,285	3,095	78,192	81,287
Fidelity	23,027	87,558	110,585	8,077	91,702	99,779
Franklin Templeton	9,145	79,724	88,869	6,598	76,632	83,230
Total equities	38,538	246,201	284,739	17,770	246,526	264,296
Global equities - pooled funds (Quoted)						
DB Advisors	0	1,343	1,343	0	0	0
Fidelity	0	14,463	14,463	71	15,425	15,496
Franklin Templeton	0	1,473	1,473	0	1,823	1,823
Sarasin	0	0	0	0	85,330	85,330
Legal and General	0	90,587	90,587	0	0	0
Total pooled investments	0	107,866	107,866	71	102,578	102,649
Private Equity (Unquoted)						
Pantheon Ventures	0	22,948	22,948	0	16,974	16,974
Knightsbridge	0	7,856	7,856	0	5,518	5,518
Total private equity	0	30,804	30,804	0	22,492	22,492
Infrastructure (Unquoted)						
Equitix	26,314	0	26,314	22,403	0	22,403
Total Infrastructure	26,314	0	26,314	22,403	0	22,403
Bonds (Quoted)						
Standard Life	113,513	0	113,513	126,549	0	126,549
Wellington	0	50,524	50,524	0	78,864	78,864
Total Bonds	113,513	50,524	164,037	126,549	78,864	205,413
Hedge Fund of Funds (Quoted)						
Bluecrest	29,567	0	29,567	13,334	0	13,334
Total Hedge Fund of Funds	29,567	0	29,567	13,334	0	13,334
Property (Quoted)						
Henderson Global Investors	0	11,041	11,041	0	11,189	11,189
Schroder	53,987	0	53,987	26,291	0	26,291
Total Property	53,987	11,041	65,028	26,291	11,189	37,480
Total investments	261,919	446,436	708,355	206,418	461,649	668,067

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.

7. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES (continued)**Trustee Related Parties**

Trustee related parties include:

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

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

Officers and Managers

Related parties under this heading include:

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

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

The only financial relationship that either trustees or officers and managers have with the Fund is as prospective or actual pensioners for those who are scheme members. For further details please refer to Note 32 of the London Borough of Croydon's Statement of Accounts 2013/14.

8. COST OF EARLY RETIREMENT DUE TO REDUNDANCY

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

During the financial year 2013/14 the capitalised cost of early retirements (due to redundancy) requiring reimbursement to the Pension Fund was £0.5m of which £0.5m was reimbursed during 2013/14. From 2010/11 the entire capitalised cost of early retirement was due the year in which it was incurred.

At the commencement of the financial year 2013/14, £0.1m (2012/13 £0.3m) of capitalised early retirement costs relating to prior year redundancies were the subject of reimbursements to the Pension Fund by annual instalments. During 2013/14, £0.1m (2012/13 £0.2m) was reimbursed to the Pension Fund.

9. DEBTORS

	2013/14 £000	2012/13 £000
Other Local Authorities - Croydon Council	473	618
Other Local Authorities	0	15
Other Entities and Individuals:		
Investment Income	688	713
Investment Disposals	2,162	2,570
Sundry Debtors	1,244	911
	4,567	4,827

10. CREDITORS

	2013/14 £000	2012/13 £000
Other Local Authorities - Croydon Council	(5,215)	(4,550)
Other Local Authorities - LB Bromley	0	(17)
Other entities and individuals		
Investment purchases	(1,736)	(3,282)
Sundry expenses	(1,393)	(1,319)
	(8,344)	(9,168)

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

	2013/14 £000	2012/13 £000
Pensions administration and payroll (see note below)	1,034	840
Audit Fees	21	21
Actuarial expenses and valuation fees	269	102
Other administrative expenses	420	130
	1,744	1,093

Croydon Council's Pensions and Treasury section officers' time and related on-costs have been recharged to the Pension Fund, totalling £834k (2012/13: £666k). These relate to Croydon Council's costs of pensions administration and the non investment accounting work.

12. INVESTMENT MANAGEMENT EXPENSES

	2013/14 £000	2012/13 £000
Fund managers' fees (see (a) below)	1,680	738
Investment advisors' fees	193	324
Direct salary and other related expenses (see (b) below)	132	270
	2,005	1,332

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

(b) Croydon Council's Pensions and Treasury section officers' time and related on costs totalling £132k (2012/13: £270k) have been recharged to the Pension Fund. These costs relate to all aspects of administering the investments of the Pension Fund, including investment monitoring.

13. INVESTMENT INCOME

	2013/14 £000	2012/13 £000
Distributions from global equity fund managers	4,645	4,653
Infrastructure distribution	0	8
Henderson property funds	221	235
Schroder property funds	938	1034
Interest on cash deposits	513	26
Other interests and adjustments	11	8
	6,328	5,964

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

14. LUMP SUMS

	2013/14 £000	2012/13 £000
Lump sum retirement benefits	7,435	6,551
Ill health retirement grants	177	167
Death grants	923	631
	8,535	7,349

15. TRANSFERS VALUES PAID AND TRANSFERS VALUES RECEIVED

	Transfers paid		Transfers received	
	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000
Individual transfers	2,568	2,678	2,729	4,076
Total	2,568	2,678	2,729	4,076

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 2014. The Fund had the following contractual commitments denominated in Sterling, Euros and Dollars.

Fund Manager	Committed 000s	Drawn 000s	Due 000s
Pantheon			
USA IV Fund	\$16,151	\$14,940	\$1,211
USA IX Fund	\$23,200	\$6,867	\$16,333
PGCO II Fund	\$16,000	\$5,440	\$10,560
Asia III Fund	\$1,997	\$1,858	\$139
Asia VI Fund	\$12,000	\$3,420	\$8,580
Euro III Fund	€ 12,299	€ 11,315	€ 984
Euro VII Fund	€ 17,000	€ 4,845	€ 12,155
Equitix			
Fund I	£10,000	£9,674	£326
Fund II	£10,000	£6,135	£3,865
Energy Efficiency Fund	£10,000	£1,142	£8,858
Knightsbridge			
KVC VII	\$13,000	\$9,360	\$3,640
KVC VIII	\$15,000	\$600	\$14,400

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 £255k for 2013/14 (£259k in 2012/13), are sent directly to the relevant AVC provider.

The value at 31 March 2014 of separately invested additional voluntary contributions was £1.75m (£1.6m in 2012/13).

19. TOTAL CONTRIBUTIONS RECEIVABLE

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

20. TAXATION

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation except for tax deducted at source from Real Estate Investment Trusts (REIT's). With respect to overseas tax, where a taxation agreement exists between this country and another whereby a proportion of withholding tax deducted from investment income can be recovered, this will be reclaimed, although the amount and timescales vary from one country to another. The amount of irrecoverable withholding tax paid in 2013/14 was £0.77m (£0.6m in 2012/13).

21. MEMBERSHIP

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

	2013/14	2012/13	% change
Contributing members	7,605	7,501	1.39%
Deferred pensioners	7,600	7,196	5.61%
Pensioners	6,578	6,366	3.33%
Total	21,783	21,063	3.42%

Active membership will be higher than the number provided above due to employees brought in via auto enrolment during the year which will be set up post preparation of the accounts.

22. CONTRIBUTIONS TO THE FUND

Employees in the scheme are required by the Local Government Pension Scheme Regulations 1997 as amended in April 2007 to make contributions to the Fund by deductions from earnings. The contribution rate payable is determined by the pay band applicable to each individual employee. The pay bands are detailed below:

Band	Range £	Contribution Rate %
1	0 -13,700	5.5%
2	13,701-16,100	5.8%
3	16,101-20,800	5.9%
4	20,801-34,700	6.5%
5	34,701-46,500	6.8%
6	46,501-87,100	7.2%
7	87,100+	7.5%

For the year ended 31 March 2014 the employers' rate was the same as for 2012-13, at 23.2% (consisting of 13.1% of pensionable pay and a lump sum deficit payment) for Croydon Council, the schools' non-teaching staff and scheduled bodies. Admitted bodies' rates varied depending upon the rates determined by the Actuary.

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

International Financial Reporting Standards require a disclosure of the Fund's past service liabilities in a manner consistent with International Accounting Standard 19 (IAS19), and the requirements of International Accounting Standard 26 (IAS26). It should be noted that some of the assumptions used when calculating liabilities under IAS19 are different compared to those when producing an on-going funding valuation under the Local Government Pension Scheme (Administration) Regulations 2008.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering Authorities of LGPS funds that prepare Pension Fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in Pension Fund accounts:

- ▶ showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- ▶ as a note to the accounts; or
- ▶ by reference to this information in an accompanying actuarial report.

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

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

Balance Sheet

Year ended	31 Mar 2014 £m	31 Mar 2013 £m
Present value of Promised Retirement Benefits	1,321	1,267

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £472m in respect of employee members, £304m in respect of deferred pensioners and £545m 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.

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to decrease the actuarial present value by £1m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2014 %p.a.	31 Mar 2013 %p.a.
Inflation/Pensions Increase Rate	2.8%	2.8%
Salary Increase Rate *	3.6%	4.6%
Discount Rate	4.3%	4.5%

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

Longevity Assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.3 years	24.4 years
Future Pensioners *	24.4 years	26.7 years

* Future pensioners are assumed to be currently aged 45.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation Assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 50% of the maximum tax-free cash for post-April 2008 service.

Professional Notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 24 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Richard Warden FFA

16 May 2014

For and on behalf of Hymans Robertson LLP

24. EVENTS AFTER THE REPORTING PERIOD

At the end of June 2014 the market value of the Fund's investments had increased by £42m, of which £25m was a cash investment into equities, approximately £13m is due to market fluctuations performance and the remaining £2m is due to the balance of cash drawn down and distributed by private equity managers. The Fund's European Property holdings were transferred to Schroder Investments in May 2014.

Adjusting Events:

Croydon Council, as the administering authority for the LGPS, collects and accounts for contributions from other Scheme employers. Contributions comprise: deductions from staff salaries, prescribed by the Scheme regulations; matching employer contributions, set out in the Actuarial Valuation certificate; and lump sum deficit contributions that are also set by the Actuary. The first two items are determined by payroll but the latter is fixed for a three-year period, commencing April 2014.

There are four employers within the Croydon Scheme who are not complying with the Scheme regulations in respect of these contributions.

Ruskin Private Hire, an admitted body, has gone into administration. An offsetting arrangement contained in their admission agreement has ensured that monies due, in so far as they can be estimated, have been collected.

Another admitted body, Cabrini, has voluntarily commenced a process of formal wind-down, disposing of assets to make a contribution towards a termination valuation.

A third admitted body, Fairfield Halls, has failed to pay over their deficit contribution in compliance with the regulations. This debt will be off-set against grant due from the Council.

St James the Great Primary School, an academy, is in arrears paying over their employer contribution. A legal process is in train to recover sums due to the Pension Fund.

Each of these individual cases has been closely monitored throughout the year and hence provide evidence of conditions that existed at the Scheme year end, and so adjust the amounts recognised in the financial statement.

25. FINANCIAL INSTRUMENTS

Below is the investment strategy agreed by Pension Committee in 2012/13.

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

25. FINANCIAL INSTRUMENTS (Continued)**Sensitivity Analysis**

A movement of 1% in the value of equities would cause a change in the asset value of the Fund of £3.56m. A 1% change in the value of bonds would have a £1.64m effect.

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. The Equitix Funds were reclassified from private equity to infrastructure during the period.

	Designated as fair value through profit and loss £000	Loans and Debtors £000	Financial assets and liabilities at amortised cost £000
Financial Assets			
Fixed interest securities	164,037	0	0
Equities	284,739	0	0
Pooled investments	107,866	0	0
Pooled property investments	65,028	0	0
Hedge Funds	29,567	0	0
Private equity	30,804	0	0
Infrastructure	26,314	0	0
Cash	0	37,309	0
Other investment balances	0	0	2,850
Debtors	0	1,717	0
Total Financial Assets	708,355	39,026	2,850
Financial Liabilities			
Other investment balances	0	0	(1,736)
Creditors	0	0	(6,608)
Total Financial Liabilities	0	0	(8,344)
Net Assets	708,355	39,026	(5,494)

Net Gains and Losses on Financial Instruments

31 March 2014
£000

Financial assets	
Fair value through profit and loss	28,300
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	28,300

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	708,355	708,355
Loans and Debtors	39,026	39,026
Financial assets at amortised cost	2,850	2,850
Total Financial Assets	750,231	750,231
Financial Liabilities		
Fair value through profit and loss	0	0
Financial liabilities at amortised cost	(8,344)	(8,344)
Total Financial Liabilities	(8,344)	(8,344)

25. FINANCIAL INSTRUMENTS (Continued)**Valuation of financial instruments carried at fair value**

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

Level One

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

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

Level Two

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

Level Three

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

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

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

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

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

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

Values at 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit and loss	556,642	65,028	86,685	708,355
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	0	0	0	0
Net financial assets	<u>556,642</u>	<u>65,028</u>	<u>86,685</u>	<u>708,355</u>

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

Market Risk

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

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

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

Other price risk

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

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

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

Other price risk - sensitivity analysis

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

Asset type	Potential market movements (+/-)
Global Equities	11.73%
Total bonds plus index linked	4.03%
Alternatives	3.83%
Property	8.06%

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	392,605	11.73%	438,658	346,552
Total bonds plus index linked	164,037	4.03%	170,648	157,426
Alternatives	86,685	3.83%	90,005	83,365
Property	65,028	8.06%	70,269	59,787
Total Assets	708,355		769,580	647,130

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**Interest rate risk**

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2014 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 2014
	£000
Cash and cash equivalents	26,477
Cash Balances	10,832
Fixed interest securities	164,037
Total	<u>201,346</u>

Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	26,477	265	(265)
Cash Balances	10,832	108	(108)
Fixed interest securities	164,037	1,640	(1,640)
Total	<u>201,346</u>	<u>2,013</u>	<u>(2,013)</u>

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 2014.

Currency exposure - asset type	Asset Value as at 31 March 2014
	£000
Overseas quoted securities	246,201
Overseas quoted securities - pooled	107,866
Overseas un-quoted securities	30,804
Overseas property	11,041
Overseas bonds (quoted)	50,524
Total overseas assets	<u>446,436</u>

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's performance management provider (WM Company), the Council considers the likely volatility associated with foreign exchange rate movements to be 5.21% (as measured by one standard deviation).

A 5.21% 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.

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

A 5.21% 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 2014	Change in net assets available to pay benefits	
		+5.21%	-5.21%
	£000	£000	£000
Overseas quoted securities	246,201	259,028	233,374
Overseas quoted securities - pooled	107,866	113,486	102,246
Overseas un-quoted securities	30,804	32,409	29,199
Overseas property	11,041	11,616	10,466
Overseas bonds (quoted)	50,524	53,156	47,892
Total overseas assets	446,436	469,695	423,177

Credit risk

Credit risk is the risk that parties in whom the Fund invests may fail to pay amounts that are due to the Pension Fund. For example an entity in which the Pension Fund invests may fail. This risk is minimised by investing in specialist fund managers across different asset classes and geographical regions. Additionally there is a risk that an admitted body may be unable to meet its contributions obligations. Contribution receipts are monitored monthly and, if necessary, remedial action is taken.

Credit risk also 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 invests 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 six financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2014 was £30.829 million (£33.74 million at 31 March 2013). This was held with the following institutions:

Summary	Rating at 31 March 2014	Balances as at 31 March 2014 £000
Money Market Funds		
Goldman Sachs	AAA	5,940
Short Term Deposit Account		
Lloyds TSB	A	20,000
Current Account		
Royal Bank of Scotland		4,882
Total		<u>30,822</u>

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings including cash invested in money market funds. The Fund defines liquid assets as assets that can be converted to cash within three months. Non-liquid assets are those assets which will take longer than three months to convert into cash. All financial liabilities at 31 March 2014 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.



2014

Pensions Governance Compliance Strategy

Your Local Government
Pension Scheme Guide

Your Guide to the London Borough of Croydon Governance Compliance Strategy

As the Administering Authority we have prepared this guide to help you understand the Governance Compliance strategies that Croydon Council (as the Administering Authority) has in place

Governance Compliance Statement

The Regulations from the Department for Communities and Local Government (CLG) requires each LGPS (Local Government Pension Scheme) administering authority in England and Wales to prepare a Governance Compliance Statement this is to be maintained and published setting out their policy on Governance with members (including pensioners and deferred members), members' representatives, prospective members and Admitted & Scheduled Bodies participating in the Fund. The Funding Strategy Statement and the Statement of Investment Principles form a set of documents detailing how the Fund is administered.

Pension Committee

As an administering pension authority the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pensions Committee. Its terms of reference are to deal with all matters relating to the investment and the management/administration of the Council Pension Fund, each member is fully aware of their role and function on the Pension Committee.

The Pension Committee's structure consists of the following:

Pension Committee Member	Voting Member	Non-Voting Member
Councillor John Wentworth, Chairman	✓	
Councillor Simon Hall, Vice-Chairman	✓	
Councillor Maddie Henson	✓	
Councillor Yvette Hopley	✓	
Councillor Humayun Kabir	✓	
Councillor Andrew Pelling	✓	
Councillor Dudley Mead	✓	
Reserve Panel: Councillors: Carole Bonner, Jan Butt-inger, Robert Canning, Luke Clancy, and Gerry Ryan	✓	
Mr Isa Makumbi, Staff Representative		✓
Ms Gilli Driver, Pensioners Representative		✓
Mr Peter Howard, Pensioners Representative		✓
Mr Mike Brakes, Co-optee Representative		✓

In addition, the Pension Committee is supported by officers and external advisers, independent professional observers and scheme members. There are no members representing admitted bodies, although these are consulted on valuation, contribution matters, and informed of Committee discussions and decisions.

Training

All members of the Pension Committee receive training from external bodies and Fund Managers along with any other area to establish the expertise essential for decision-making. Training is recommended to all members of the Committee, a log is maintained to ensure members have attended, and reimbursed of all expenses incurred during training and any other Pension Committee process. The Pension Committee have adopted the Knowledge & Skills Framework.

External Advisers to the Pension Committee		Contact
Investment Adviser	AON Hewitts	Ian Bailey
Actuarial / Administrative Adviser	Hymans Robertson	Michael Ferguson

Terms of Reference

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

Frequency and Structure of Meetings

The Pension Committee meetings are held on at least a quarterly basis. The agenda and minutes from previous meetings are circulated to the Members of the Pension Committee within 5 days prior to the meeting. Committee members are invited to declare any financial or pecuniary interest related to matters on the agenda. The agenda and minutes of Pension Committee meetings are available on the Council's website following every meeting.

Voting

The Administering Authority is fully compliant with the Voting principle. Most decisions are reached by consensus, but voting rights remain with the Councillors, because of the Council's legal responsibility as Administering Authority.

Scope

In addition to reports from the fund managers and investment advisers, the Committee considers reports on matters such as the funding level, communications strategy and best practice standards, reflecting the flexibility and development of the Committee.

Publicising the Governance Compliance Statement

This document is included within the Pension Fund Annual Account. A version of this policy is made available on the website, circulated to the Admitted & Scheduled Bodies for comment and distribution.

Further Information

This document is available in large sight and Braille upon request.

If you need more information about the Scheme you should contact the following:

Pensions Section

11A, Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Tele: 020 8760 5768 x 62892

Email: pensions@croydon.gov.uk

Website: www.croydonpensionscheme.org



CROYDON
www.croydon.gov.uk

Statement of Investment Principles

1 Introduction

The elected members of Croydon Council, acting through the Pension Committee, have drawn up this Statement of Investment Principles to comply with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 , brought into force on 1st January 2010 by the Local Government Pension Scheme (Management and Investment of Funds), as they relate to the Pensions Act 1995 in its requirements of occupational pension schemes and the London Borough of Croydon Pension Fund (“the Fund”).

The Statement also reflects the Local Government Pension Scheme (Amendment) (No 2) Regulations (2005) to provide the statutory framework from which the administering authority is required to prepare a Governance Policy Statement (GPS). Accordingly, the GPS sets out the Fund’s governance arrangements, including representation and delegations. The Council has consulted suitably qualified persons and has obtained written advice from its investment consultant, AON Hewitt. Overall investment policy falls into two parts:

- The strategic management of the assets is the responsibility of the Pension Committee who delegates many of their functions to the officers and act on the advice of the investment consultant and the independent Fund adviser.

- The remaining elements of policy are part of the day-to-day management of the assets which are delegated to professional investment managers as described in Section 3.

1.2 Hutton Review and Changes to the Local Government Pension Scheme

Lord Hutton's Independent Public Service Pensions Commission: Final Report, which sets out the principles for reforms to Public Service Pensions, was released in March 2011. The Government has accepted the broad principles set out in the report as a basis for consultation.

On 1 April 2014 the Government's changes to the LGPS were implemented. The key changes are outlined below:

- All benefits accrued by members up to 2014 will be protected under the final salary/age 65 arrangements.
- The retirement age be increased and linked to the State Pension Age going forwards.
- The new scheme will be based on career average salary (CARE) instead of final salary. This means benefits accrue on the pay earned over the entire time a member is in the LGPS 2014.
- Lower Cost Option 50/50 – giving members the flexibility to pay 50% of their contributions to receive 50% of the benefits.
- The accrual rate increases from 1/60th to 1/49th.

2 Investment Objectives, Strategy and Risk

2.1 Investment Objectives

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

- Following the last review of investment strategy during the year 2012/13, the overall investment policy was set to achieve a return on investments consistent with the Actuary's long-term strategy.
- Investment policy is guided by an overall objective of achieving, over the long term, a return on investments to meet all the Fund liabilities,

after taking into account employer and employee contributions, with the aim of minimising the level of risk and the impact on the local taxpayer, which is consistent with the long-term assumptions used by the Actuary in determining the funding of the Fund.

- To ensure the fund remains liquid over the short, medium and long term so that cash is available to meet all liabilities as and when they fall due without need for forced or untimely disinvestments.
- To achieve a return on investments in line with the mandates (see paragraph 3.1).
- Promote a Socially Responsible Investment Strategy consistent with maximising the return on the Fund.
- Comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2.2 Investment Strategy

During the year 2012/2013 the Pension Committee discussed and agreed that the investment allocation strategy should be revised as shown in the table below. The allocation to Bonds was decreased as a result of the poor outlook for this asset class. The property allocation was increased in order to provide more diversified returns from equities. An allocation to infrastructure has also been included.

Assets	Benchmark	Target 2012/13 (%)
Global Equities	MSCI AC World index FTSE World	50 +/- 3
Bonds	10% 3 month Libor plus 2.5% / 8% Merrill Lynch Sterling non-gilts, all stocks index / 12% Merrill Lynch Sterling Broad Market index	25 +/- 3
Property	IPD All Properties index	10 +/- 3
Funds of Hedge Funds	3 month LIBOR plus 10%	4
Private Equity	MSCI AC World index Absolute Return of 12%	5
Infrastructure	RPI*	5
Cash	LIBID	1
Total		100

*The Infrastructure benchmark will be dependent upon the chosen portfolio and manager.

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

In order for the Fund's exposure to pooled vehicles and unit trust schemes to be brought more in line with the new target allocation, the Pension Committee, having taken appropriate advice, has decided to continue to adopt the increased limits for units of shares of the investments, subject to the trusts of unit trust schemes managed by any one body. This is for an unlimited period of time, is consistent with the Fund's Investment Strategy and the increase complies with the *Local Government Scheme (Management and Investment of Funds) (Amendment) Regulations 2003*, superseded by the *Local Government Scheme (Management and Investment of Funds) Regulations 2009*, and the *Local Government Pension Scheme (Amendment) (No 2) Regulations 2005* and therefore the Pension Committee formally agreed the following: -

- All contributions to any single partnership to a maximum of 5% (of the total fund value)
- All contributions to partnerships to a maximum of 15% (of the total fund value)
- All investments in units or other shares of the investment, subject to the trusts of unit trust schemes managed by one body, to a maximum of 35% (of the total fund value)
- All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body to a maximum of 35% (of the total fund value)

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

The Investment Strategy was reviewed ahead of the 2013 Triennial Valuation. This review was carried out by the officers under the guidance of the professional investment advisor, Aon Hewitt. Refer to section 3.1 detailing the exposure to any one body.

2.3 Risk

There are various risks to which any pension scheme is exposed. The Pension Committee has considered a number of risks including: -

- The risk arising through a mismatch between the Fund's assets and its liabilities.
- The risk of deterioration in the Fund's ongoing funding level.
- The risk of a shortfall of assets, relative to the liabilities as determined if the Fund were to be wound up.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return required to meet accrued and future liabilities as quantified by the Fund's Actuary.

- The risk of the active investment managers underperforming their benchmarks.
- The risk of insufficient liquidity from the Fund's assets.
- The failure to spread investment risk ("risk of lack of diversification").
- The risk of fraud, poor advice or acts of negligence ("operational risk").

Various arrangements, approved by the Pension Committee, have been put in place to minimise and manage some of the specific risks set out above, following appropriate advice from the Fund's Investment Consultants:-

- Asset allocation strategy and fund benchmark – The revised asset allocation strategy, detailed in section 2.2, is designed to spread the risk through investment in a diversified range of asset classes, including alternatives and geographic regions. The overall Fund benchmark reflects this asset allocation and provides a basis with which to measure the Fund against its objectives.
- Panel of fund managers – A panel of active fund managers have been procured to deliver the strategy, including reserve managers for each asset class. The panel approach incorporates flexibility and the ability to switch between fund managers should there be consistent underperformance or a significant event that would warrant termination of a funded manager. Refer to section 3.4 below.

Suitable investments – The Pension Committee acknowledges the statutory duty to ensure funds are suitably invested, within the limits under section 2.2 above. Investments have been made in a range of quoted securities, pooled investment vehicles, hedge fund of funds, unit trusts, unquoted and private equity

investments, derivative instruments, cash, bank deposits and short term money market funds. The investment strategy makes due allowance of the need for liquidity of the Fund's assets.

3 Day to Day Management of the Assets

3.1 Main Assets

The Fund's asset allocation as at 31st March 2013 was as follows: -

Investment Manager	Investment Mandate / Fund	% of Fund
<u>Global Equities</u>		
Fidelity	Select Global Active (segregated plus pooled emerging markets fund)	16.8
Franklin Templeton	Global equities (segregated)	12.6
Global Thematic Partners	Global thematic equities (segregated)	11.7
Legal and General Asset Management	DB World Equity Index (pooled)	12.1
<u>Global Bonds</u>		
Standard Life Investments	Corporate Bond Fund (pooled)	9.0
	Absolute Return Global Bond Fund (pooled)	9.1
Wellington	WMP Sterling Core Bond Plus Fund (pooled)	11.2
<u>Hedge Fund of Funds</u>		
BlueCrest	AllBlue Fund	1.9
<u>Property</u>		
Schroder Investment Management	UK Property	3.9
<u>Private Equity</u>		
Pantheon Ventures Limited	Pantheon Europe, US and Asia Funds	2.3
Equitix	Private equity infrastructure	2.8
Knightsbridge Advisors	US venture capital	0.8
<u>Internal Cash</u>		
Total		100

Source: WM Performance Services

As at 31st March 2014 the majority of assets were under active management with the exception of the Legal and General World Equity Index fund which tracks the FTSE World index. Assets are distributed with the aim of meeting the target allocation of the Fund as set out in paragraph 2.2 having regard to maximising investment returns and the day-to-day liquidity requirements of the Fund.

3.2 Asset Allocation Guidelines and Investment Performance Benchmarks

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

Global Equities

Manager	Benchmark	Target	Tracking Error
Fidelity	MSCI AC World index	2% outperformance per annum (net of fees) over 3 years	1%-3%
Franklin Templeton	MSCI World index	2% outperformance per annum (gross of fees) over 5 years	4%-8%
GLOBAL THEMATIC PARTNERS Advisors	MSCI World index	2%-4% outperformance per annum over 3 years	4%-8%
Legal and General Asset Management	FTSE World index	Track the FTSE World index	+/- 0.25%

Global Bonds

Manager	Benchmark	Target	Tracking Error
Standard Life – Corporate Bond	Merrill Lynch non-gilt sterling all stocks index	0.8% outperformance per annum (gross of fees).	0.5%-2%
Standard Life – Absolute Return	3 Month LIBOR	2.5% outperformance (gross of fees) on rolling 3 years	0.5%-2%

Wellington	Merrill Lynch Sterling Broad Market index	1%-1.5% outperformance per annum.	0%-3%
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Absolute Return – Hedge Fund of Funds

Manager	Benchmark	Target	Tracking Error
BlueCrest	3 month Libor plus 10%	Absolute return of 3 month Libor plus 10%-15% (net of fees).	6%-8%

Private Equity

Manager	Benchmark	Target	Tracking Error
Pantheon	FTSE All-Share index	Absolute return of 3% - 5% outperformance over the long term.	Not applicable
Equitix	Absolute return of 12% over the life of the fund.	Absolute return of 12% over the life of the fund.	Not applicable
Knightsbridge	MSCI AC World index	Absolute return to outperform MSCI AC World index.	Not applicable

Property

Manager	Benchmark	Target	Tracking Error
Schroder	Investment Property Databank (IPD) All Properties Index	Absolute return to outperform the IPD All Properties index	Not applicable

3.3 Fees

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

3.4 Monitoring the Investment Managers

Performance of the investment managers is measured by the World Markets (WM) Company. The Council's officers meet the investment managers regularly to review their actions together with the reasons for investment performance. A set of 'trigger events' have been agreed by the Pension Committee and should these occur, they will be investigated by officers and reported to the Committee. A panel of reserve managers have been set up, as agreed with the Committee and should investments with the current managers be deemed inappropriate due to a trigger event or consistent underperformance, the Committee will consider whether to terminate the contract and switch to an alternative reserve manager. The Pension Committee meets on a quarterly basis to review and monitor performance with the active investment managers attending when required. AON Hewitt Investment Consulting and the Fund's independent investment advisor, are retained to assist the Fund in fulfilling its responsibility for monitoring the investment managers.

The Pension Committee, through the Council's officers, also receives regular updates from the WM Local Authority Universe, which represents the aggregate of all participating Local Authorities pension schemes on investments and performance. The Pension Committee uses this as a broad comparison but acknowledge that the universe of local authorities comprises pension funds with a range of different characteristics in terms of their liability profiles, risk budgets, investment objectives and investment strategies. The Fund's performance is therefore expected to be different from the average local authority pension fund.

3.5 Realisation of Investments

In general, the Fund's investment managers have discretion as to the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's investment managers have responsibility for generating cash for investment in new assets and shortfalls in revenue expenditure of the Fund as may be required for time to time. The Pension Committee decides, with

the advice from its investment advisers, on how investments should be realised for cash.

3.6 Pension Committee Arrangements

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

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

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

3.7 Additional Voluntary Contributions

Any members' additional voluntary contributions (AVC's) are held in various separate investments administered by Prudential Assurance Company Limited. The benefits arising from these contributions are additional to, and do not form part of, the benefits due under the Local Government Pension Scheme. They are therefore not required to be included in the Pension Fund Accounts in accordance with the Statement of Recommended Practice - Financial Reports of Pension Schemes (issued in 2002). The Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVC's.

4. Custody

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

5 Socially Responsible Investment and Corporate Governance

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

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

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

LAPFF also uses its influence to engage with and, where necessary, challenge companies on corporate governance matters. It is the view of officers and the advisers that this is an extremely cost effective way of fulfilling part of our commitment to "activism" which is one of the ten principles outlined in the "Statement of Compliance – Myners' Investment Principles" which are fully described in a separate section in the Annual Report. Allied to shareholder activism is the need to ensure that the Fund has a comprehensive voting policy which reflects the socially responsible investment issues supported by the

Pension Committee. To this end the Pension Committee uses Pension Investment Research Consultants Limited (PIRC) to vote on the Fund's behalf in respect of the FTSE 350 holdings according to PIRC voting guidelines. It is the view of officers that membership of PIRC has resulted in the Croydon Council Pension Fund's voting policy being probably one of the most comprehensive of all the Local Authority Pension Funds in the country. The Council's Pension Fund has determined that dialogue (through LAPFF) and a proactive engagement (through PIRC) is the most effective way of influencing companies in relation to social, environmental and business policies whilst at the same time achieving financial returns compatible with the Fund's longer term financial objectives.

From April 2010 PIRC assumed the responsibility for voting on the Fund's global equity holdings.

6 Expected Return on Investments

When the Fund's investment strategy was last reviewed, the Pension Committee discussed and agreed that in order to have a more consistent level of return, aligned with the Actuary's recovery plan, the investment allocation strategy should be revised as shown in the table in paragraph 2.2 of this statement. This current strategy was agreed during the first quarter of 2013. The asset allocation of the Fund will be kept under constant review and may be changed from time to time. Changes will be reflected in an updated version of this statement.

7 Principles for Investment Decision-Making

- *The extent to which the Pension Fund complies with the Communities and Local Government guidance “Investment Decision making and disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles” has been included in the Annual Report under a section titled “Statement of Compliance – Myners’ Investment Principles”. Within these principles the term “Trustee” is used from time to time. When considering advice and determining investment policy, the Pension Committee are effectively acting as Trustees. As such, they have responsibilities additional to those carried out as elected members of the Council. Their duties as “Trustees” are to manage the Fund in accordance with the Local Government Pension regulations and to do so prudently and impartially.*

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

8 Stock Lending

The Pension Fund does not engage in stock lending activities.

9 Compliance with this Statement

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

10 Review of this Statement

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

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

Statement of Compliance – Myners’ Investment Principles

Principle 1: Effective Decision-Making					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			<p><i>Administrating authorities should ensure that:</i></p> <p>Decisions are taken by persons or organisations with the skills, <i>knowledge, advice</i> and resources necessary to make them <i>effectively and monitor their implementation. Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</i></p>	<p>All investment decisions are taken either by the Pension Committee, which is responsible for the ‘Management of the Council’s Pension Fund’, or by the Executive Director Resources and Customer Services under his delegated powers. In addition to the Executive Director of Resources and Customer Services, the Pension Committee is advised by experienced Council officers and external advisers (one being appointed by AON Hewitt Consulting Global Investment Practice and an independent advisor, Valentine Furniss). All voting members of the Pension Committee are experienced Councillors with a wide range of expertise including investment and accountancy. In addition to the Councillors, the Pension Committee includes representatives of the staff and pensioners. Collectively, the Pension Committee has all the skills necessary to properly carry out their investment responsibilities. Councillors, officers and advisers are given training opportunities, to ensure that their expertise remains up to date. Several members of the Pension Committee have attended specific training seminars.</p>	<p><i>The CIPFA Knowledge and Skills Framework will be used to develop a training plan. Training will continue to be offered to all members of the Pension Committee.</i></p>

Principle 2: Clear Objectives																							
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future																		
Fully	Part	Not																					
✓			<i>An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</i>	See section 2 of the Statement of Investment Principles (SIP). The Fund's objectives are reviewed annually, during the review of the Statement of Investment Principles.																			
✓																							
Principle 3: Risk and Liabilities																							
✓			<i>In setting and reviewing their investment strategy, administering authorities should take into account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</i>	At both the Pension Committee and the Advisers/ Officers level, strategic asset allocation is discussed, either in the context of performance monitoring or arising from a specific Officer report. The full range of investment opportunities is considered. At the time of the last investment strategy review, the Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary's 24 year recovery plan, the investment allocation strategy should be revised as below: - <table border="0"> <tr> <td>Asset Category</td> <td style="text-align: right;">%</td> </tr> <tr> <td>UK & Overseas Listed Equities</td> <td style="text-align: right;">50 +/- 3</td> </tr> <tr> <td>Bonds</td> <td style="text-align: right;">25 +/- 3</td> </tr> <tr> <td>Property</td> <td style="text-align: right;">10 +/- 3</td> </tr> <tr> <td>Fund of Hedge Funds</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Private Equity</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Infrastructure</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">100</td> </tr> </table> Based on advice from the Pension Fund's Investment Consultants, a panel of investment managers have been funded to implement this strategy.	Asset Category	%	UK & Overseas Listed Equities	50 +/- 3	Bonds	25 +/- 3	Property	10 +/- 3	Fund of Hedge Funds	4	Private Equity	5	Infrastructure	5	Cash	1	Total	100	Continue to consider and review asset allocation policy.
Asset Category	%																						
UK & Overseas Listed Equities	50 +/- 3																						
Bonds	25 +/- 3																						
Property	10 +/- 3																						
Fund of Hedge Funds	4																						
Private Equity	5																						
Infrastructure	5																						
Cash	1																						
Total	100																						

Principle 4: Performance Assessment					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			<p><i>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</i></p> <p><i>Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</i></p>	<p>The Fund's managers provide full reports on performance on a quarterly basis. The investment managers' performance and the Fund's overall performance are independently measured quarterly and annually by the World Markets (WM) Company and reported on a quarterly basis to the Pension Committee. The Fund's Investment Consultants, AON Hewitt, also monitor the investment managers and report their research and ratings to the Committee on a quarterly basis. Officers meet with managers on a regular basis and each manager has been scheduled to attend Committee meetings on at least an annual basis.</p> <p>The Fund has procured the services of AMACES to undertake a full review of the custodian contact and to monitor the custodian's performance.</p> <p>A revised framework for reporting to the Committee has been put in place by Officers, reporting on the Fund's panel of investment managers' performance and any significant events during the quarter.</p>	<p>Reporting on the Council's own effectiveness as a decision making body will be a focus.</p>
Principle 5: Responsible Ownership					
✓			<p><i>Administrating authorities should:</i></p> <p><i>Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</i></p>	<p>The Pension Fund's investment managers have adopted the Institutional Shareholders' Committee Statement of Principles.</p>	<p>Establish a global contract with PIRC to consistently vote across the Pension Fund's holdings with each investment manager.</p>
✓			<p><i>Include a statement of their policy on responsible ownership on the statement of investment principles.</i></p>	<p>Sections 5 and 7 and the introduction of the Statement of Investment Principles detail the Fund's policy on responsible ownership, including shareholder activism and the decision making duties of the Pension Committee and the investment managers.</p>	
✓			<p><i>Report periodically to scheme members on the discharge of such responsibilities.</i></p>	<p>Officers report quarterly to the Pensions Committee on the voting by PIRC and the investment managers carried out on the Fund's equity holdings. This report is available on the Council's website for members to view.</p>	
✓				<p>The Governance Policy Statement is also available to the public, establishing the roles of the Pension Committee and decision makers</p>	

✓				over the Pension Fund.	
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Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
Principle 6: Transparency and Reporting					
✓			<p><i>Administrating authorities should:</i></p> <p><i>Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.</i></p> <p><i>Provide regular communication to scheme members in the form they consider most appropriate.</i></p>	<p>The Council communicates with stakeholders through the publication of key documents on the Council's website, including the Governance Policy Statement, the Communication Statement and the Annual Report.</p> <p>Additionally, there is an annual open day; quarterly employee forum; surgeries; drop in sessions and other ad hoc events.</p> <p>A regular newsletter is also sent scheme members.</p>	<p>The Council will continue to communicate with stakeholders and members.</p>

Date: August 2014



2014

Pensions Communication Strategy

Your Local Government
Pension Scheme Guide

Your Guide to the London Borough of Croydon Communication Strategy

As the Administering Authority we have prepared this guide to help you understand the various Communication strategies that Croydon Council (as the Administering Authority) offers to all of its stakeholders

Statement of Communications Policy

The Regulations require each administering authority in England and Wales to prepare, maintain and publish a statement setting out its policy on communicating with the following people and organisations:

- ▶ Contributing Scheme Members
- ▶ Prospective Scheme Members
- ▶ Pensioner Scheme Members and deceased dependants
- ▶ Deferred Scheme Members
- ▶ Admitted & Scheduled Scheme Employers participating in the Fund
- ▶ Trustees
- ▶ Other Bodies

This document sets out the mechanisms which are used to meet our communication needs. We aim to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one medium of communication.

▶ Contributing Scheme Members

Member Self Service

All members can request their own password to view their record. Amendments can be made to update certain details and calculations can be performed.

Annual Benefit Statement

Members can access their individual information via the Member Self Service facility at their convenience. The Statement details information held on the Pension Section database and provides estimates of the current and future value of the members' benefits.

Pensions Newsletter

A newsletter is produced once a year and is sent to Members' by email, it is also available on the Council website. The publication informs members of LGPS regulation changes and other related topics. The publication is also used to remind members of keeping the Pensions Section up-to-date with their details. Croydon Council have formed a collaborative working group with a number of other London boroughs through a Framework Agreement. Communications and reducing cost are a key objective in our service to our membership.

Pension's Updates

When there are scheme changes there will be more communication to Members, these will be sent via work email addresses, on the intranet and available on the website.

Pension's Website

The Pension's Website has been developed, which displays: all Forms in PDF format to download, Croydon Council's Policies and Regulations on the Local Government Pension Scheme and ad-hoc information for Members. The Website is a key method of communication.

Pension's Open Day

Croydon Council holds an annual Open Day inviting all staff members to attend either a morning or afternoon session, where members have the opportunity to find out the most up-to-date information and speak 1-2-1 to a pensions administrator. Past speakers have been from the Communities & Local Government, Local Government Employers' Organisation and the Council's Fund Managers and Actuaries.

Pension Roadshows, Seminars and Surgeries

This is a valuable aid for scheme members, roadshows are used to target specific topics with support being enlisted from our advisers and fund managers. The Pensions Section have held roadshows in various locations within the Borough, enabling all members of the LGPS to have access to information. Surgeries are also held across the borough offering individual 1-2-1 meetings. Pre-Retirement workshops have been run and these have been successfully received.

Scheme Guides

Scheme guides are provided to all new prospective scheme members on appointment and can be viewed on the internet by all staff.

Literature

All up-to-date information on the scheme is held on the website in our 'Your Local Government Pension Scheme Guide'. All our available forms are held on the website in pdf and word format. There is also information on various ways of topping up benefits, with a direct link to our AVC provider - Prudential.

Pensions Helpline

Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

► **Prospective Scheme Members**

Initial Contact

All permanent new members of staff are automatically enrolled to the scheme. Each new member is sent a welcome letter statutory notice confirming membership of the LGPS along with our LGPS Scheme Guide, and contact information.

Pensions Helpline

Prospective Scheme Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

► **Pensioner Scheme Members and deceased dependants**

Pensioners Payslip

All pensioners receive a payslip in March, April, May along with their P60 at the end of the year. A payslip will also be received where the amount of net pension changes by more than £20.

Pensioners Newsletter

All Pensioners receive an annual newsletter which is sent out in April and sent to their home address. This publication includes the pensions increase, and other relevant information.

Life Certificates—Pensioners Living Abroad

The fund undertakes an annual exercise, conducted through correspondence, in order to establish the continued existence of pensioners living abroad.

Pensions Helpline

Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

▶ Deferred Scheme Members

Annual Benefit Statement

Once a year all members benefits are sent out in an Annual Benefit Statement direct to home addresses. Summarising the basic information held on the Pension Section database.

Update of Information

If there are any changes to the LGPS regulations which are relevant to Deferred Scheme Members correspondence will be sent directly to their latest home address held on the pensions database.

Pensions Helpline

Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

▶ Admitted & Scheduled Scheme Employers participating in the Fund

All Employer Forums

Meetings are held quarterly for Employers; specifically this has been used as a mechanism for communicating major strategic issues, significant LGPS legislation changes, tri-annual valuation matters and the Funding Strategy Statement.

Employers' are kept informed throughout the process of the tri-annual valuation which is carried out by the Councils Actuaries. The Employers' comments are always encouraged and welcomed and where appropriate taken into consideration.

Employers' Guide

An Employers' guide has been produced to assist the smaller employers in discharging their pension administration responsibilities.

▶ Trustees

There is a governing body of Trustees called The Pension Committee. The Committee meet quarterly to deal with all matters relating to the investment and the management/administration of the Council Pension Fund. In addition to reports from the fund managers and investment advisers, the Committee considers reports on matters such as the funding level, communications strategy and best practice standards.

Training is provided from the Fund's Officers, advisors and external experts with regard to investment and administration matters. A log of all training is maintained in the Members Training Report.

▶ Other Bodies

AVC Provider

AVC's (Additional Voluntary Contributions) are a way to top up your tax free lump sum and pension from your Local Government Pension Scheme. Croydon Council's AVC provider is Prudential. Contact details are available from Croydon Council's website.

Trade Unions/Employer Representatives

We will work with the relevant Trade Unions and Employer Representatives to ensure the Scheme is understood by all interested parties. All efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

London Pensions Officer's Group

Pensions Officers from other London Boroughs meet regularly in order to share information and ensure uniform interpretation of Local Government Pension Scheme, and other prevailing regulations.

National Information Forum

All administering Authorities are invited to attend, these meetings provide an opportunity to discuss issues of common interest and share best practice. The Office Government Pensions Committee are represented at each meeting.

National Association of Pension Funds (NAPF)

All administering Authorities who are members of the NAPF are invited to attend, these meetings provide an opportunity to discuss issues of common interest and share best practice.

Seminars

Representatives of the Council regularly participate at seminars and conferences.

The table below shows the availability of Fund publications along with their publication frequency and review periods.

Communication Material	Paper based	Electronic form	Internet for all to view	When published	When reviewed
Pension Scheme Guide	✓	✓	✓	Constantly available	Annually
Topping up Benefits	✓	✓	✓	Constantly available	Annually
Annual Benefits Statements	✓	✗	✗	Annually	Annually
Statutory Notifications	✓	✗	✓	On joining & ABS	Annually
Members Self Service	✗	✓	✓	On joining	Continually
Pension Updates	✓	✓	✓	As required	After each publication
Annual Pension Fund Report	✓	✓	✓	Annually	Annually
Newsletter to Active Member	✓	✓	✓	Annually (if not more)	After each publication
Early Leaver information	✓	✓	✓	Sent with Deferred benefits statement	Annually
Retirement information	✓	✓	✓	Sent with retirement details	Annually
Pension Increase incorporated in the Pensioners Newsletter	✓	✓	✓	Annually	Annually
Actuarial valuation report	✓	✓	✓	Tri-annually	Tri-annually
Pension Fund Committee	✓	✓	✓	Quarterly	Quarterly
Communication Policy	✓	✓	✓	Upon request	Quarterly
Governance Compliance Statement	✓	✓	✓	Upon request	Quarterly

While these publications are reviewed within our timescales, these are also reviewed in conjunction with LGPS and other related legislation changes.

Further Information

This document is available in large sight and Braille upon request.

If you need more information about the Scheme you should contact the following:

Pensions Section

11A, Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Tele: 020 8760 5768 x 62892

Email: pensions@croydon.gov.uk

Website: www.croydonpensionscheme.org



CROYDON
www.croydon.gov.uk



2014

Pensions Training Log

Your Local Government
Pension Scheme Guide

Your Guide to the London Borough of Croydon Training Log

As the Administering Authority we have prepared this guide to log the training of the Pension Committee Members for the year that Croydon Council (as the Administering Authority) has taken place in April 2013/Mar 2014

Pension Committee Members Training Log

The Pensions Committee's training strategy takes account of the requirements of the Pensions Act 2004. The Act requires that trustees of occupational pension schemes should have knowledge and understanding of the law relating to pensions and role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits. The training needs of Pension Committee members are assessed on an individual basis and take account of members' existing expertise, and interests in specific areas. Within this flexible framework the following structure is operated. New members receive a comprehensive Pensions Committee Handbook, a half-day induction session before attending their first meeting, attend a three day LGE Fundamentals course and a Hymans/CIPFA Introduction to the LGPS.

In each subsequent year of membership they are expected to undertake training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. A self assessment training needs questionnaire has been developed to help members to focus on the most important areas for their training. A detailed log of all training undertaken and planned by Committee members is maintained and is available for inspection on request. Also during 2012/13 two separate training sessions were given to the Committee by the Pension Funds Investment Advisors.

The Pension Committee receives training and development as required and is commissioned from a variety of sources such as:

- ▶ External courses
- ▶ Training courses delivered by investment consultants
- ▶ Training courses sponsored by the Investment Managers
- ▶ Training included as part of the service received from the performance measurement provider and Actuary
- ▶ National Seminars and conferences

A training log will be maintained for each member of the Panel to record the actual training undertaken during the year. The log will be kept by the Head of Pensions & Treasury and will include details of all relevant training courses, seminars and events attended by each member, based on information available to the Head of Pensions & Treasury from arranging training events or booking attendance.

Panel members will be responsible for notifying the Head of Pensions & Treasury of other training activities on Pension Fund matters. Training logs will be circulated to members at the end of the financial year to confirm accuracy and to complete where necessary the evaluation section. The training logs will then be published as part of the training plan for the following year to provide evidence of the Committee's commitment to training.

The training log will include an assessment of whether each training event has fulfilled the need it was intended to meet.

Pension Committee 13/14 Training Log:

Name	Job	Visit Knightsbridge 17 April 2013	Introduction to the LGPS (CIPFA) 14 June 12	Pension Committee Visit Sarasin 27 June 2013	LG Investment Summit Sept 2013	LG Fundamentals Course (Oct, Nov, Dec 13)	Hyman Robertson Tri Valuation Training Part I at TPC 3 Sept 13	Pension Committee Visit Equitix & Standard Life Oct 13	Pension Committee Visit Schroders 28 Jan 14	Pension Committee Visit Franklin Templeton 25 Feb 14	Pension Committee Visit Pantheon 27 March 14	Hyman Robertson Tri Valuation Training Part II at TPC 26 Nov 13
Councillor Dudley Mead	Chair	✓		✓	✓		✓	✓	✓	✓		✓
Councillor Jan Buttinger	Vice-Chair	✓		✓		★	✓	✓	✓		✓	✓
Councillor Simon Hall	Member	✓										
Councillor Maggie Mansell	Member	✓				★	✓					✓
Councillor Steve O'Connell	Member	✓				notified						
Councillor Donald Speakman	Member	✓				★	✓					✓
Councillor John Wentworth	Member	✓				★	✓					✓
Councillor Eddy Arram	Reserve Members	✓					✓					✓
Councillor Graham Bass	Reserve Members	✓										
Councillor Carole Bonner	Reserve Members	✓					✓					✓
Councillor Matthew Kyeremeh	Reserve Members	✓										
Councillor Ian Parker	Reserve Members	✓										
Councillor Raj Rajendran	Reserve Members	✓										
Councillor Sue Winborn	Reserve Members	✓										
Ms Gilli Driver	Pensioner Representative		✓			★	✓					✓
Mr Peter Howard	Pensioner Representative		✓				✓					✓
Mr Mike Brakes	Co-opted Member	✓	✓	✓		★	✓	✓	✓	✓	✓	✓
Mr Isa Makumbi	Staff Side Representative					★	✓					✓

★ previously attended

Further Information

This document is available in large sight and Braille upon request.

If you need more information about the Scheme you should contact the following:

Pensions Section

11A, Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Tele: 020 8760 5768 x 62892

Email: pensions@croydon.gov.uk

Website: www.croydonpensionscheme.org



CROYDON
www.croydon.gov.uk

The Audit Findings Report for the London Borough of Croydon Pension Fund

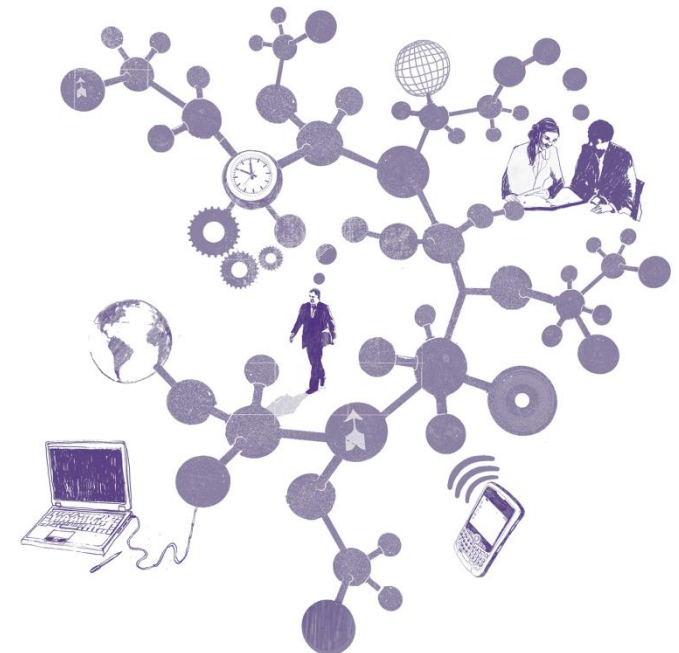
Year ended 31 March 2014

August 2014

Sue Exton
Engagement Lead
T 0207 728 3191
E sue.m.exton@uk.gt.com

Dominic Bradley
Manager
T 01293 554148
E dominic.g.bradley@uk.gt.com

Thomas Ball
Assistant Manager
T 0207 728 3009
E thomas.ball@uk.gt.com



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of the London Borough of Croydon Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 25 June 2014. Our audit is substantially complete although we are finalising our procedures in the following areas:

- testing of new member opt-outs
- sample testing of related party transactions
- review of the year-end reconciliation of investment valuations
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of the pension fund annual report

We received draft financial statements at the start of our two week audit on 14 July 2014, in accordance with the agreed timetable. This version already contained three changes affecting the net assets statement and fund account from the approved 30 June 2014 set of accounts. Not all the working papers were ready at the start of the audit. A trial balance was not provided until 21 July 2014. This was

due to the finance team identifying several further omissions from the draft financial statements after the audit had started. The changes were due to valuations of private equity and hedge fund investments not being updated from their 31 December 2013 values and non-reversal of prior year contribution accruals. These changes resulted in us having to undertake additional audit work in the second week of the audit.

Other working papers were subsequently provided piecemeal throughout the audit and in some instances, not until we had finished on site. When received, working papers were generally of a good standard.

Key issues arising from our audit

Financial statements opinion

The draft financial statements recorded net assets of £741,539k; the audited financial statements show net assets of £741,886k. We identified two minor adjustments totalling £2k affecting the Fund's reported financial position. The adjustments identified by the finance team effected net assets by £345k and are listed separately in section two of this report

Our audit procedures also identified a number of adjustments to improve the presentation of the financial statements, the most important of which are recorded in section two of this report.

We recognise the impact of changes made in the finance team. We have agreed actions for improvement with management as detailed in Appendix A.

We anticipate providing an unqualified opinion on the Fund's financial statements (Appendix B) and the Pension Fund Annual Report (Appendix C).

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. We look forward to working with staff to help improve their closedown and timeline to include a full quality review to try to achieve a smoother audit in 2014/15.

Grant Thornton UK LLP

August 2014

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the General Purposes and Audit Committee on 25 June 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 25 June 2014.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our draft audit opinion on the pension fund financial statements is set out in Appendix B.

Whilst we have not yet received a copy of the Annual Report, subject to our review, we anticipate providing an unqualified opinion on the Pension Fund Annual Report. Our draft audit opinion on the pension fund annual report is set out in Appendix C.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for London Borough of Croydon Pension Fund since:</p> <ul style="list-style-type: none"> • There is no external pressure to hit a year end financial performance target for the Pension Fund. • There is a strong governance environment which demonstrates that controls exist to prevent fraud. • There is no history of fraud in revenue recognition. • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension fund, the custodian and its fund managers provide a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	<ul style="list-style-type: none"> • Investments not valid • Alternative investments not valid • Investments activity not valid • Fair value measurements of securities quoted using prices (unadjusted) in active markets for identical securities not correct • Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct • Fair value measurements priced using inputs not based on observable market data (using models or similar techniques) not correct 	<ul style="list-style-type: none"> • We reviewed the reconciliation between information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for any variances. • We selected a sample of the individual investments held by the fund at the year end and then tested the valuation of the sample by agreeing prices for quoted investments to third party sources where published and for unquoted and direct property investments, by critically assessing the assumptions used in the valuation. • The existence of investments were confirmed directly with independent custodians or by agreement to relevant documentation. • We obtained direct confirmation of income receivable on Investments from fund managers. • We reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. • We tested a sample of purchases and sales during the year back to detailed information provided by the fund managers. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any significant issues in relation to the risk identified that we need to report to you.</p>
Benefit Payments and payments to leavers	<ul style="list-style-type: none"> • Benefits improperly computed/ liability understated 	<ul style="list-style-type: none"> • We confirmed the existence of controls operated by the pension fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. With a view to reducing the level of substantive testing required, we did not consider it necessary to test the key controls identified as sufficient evidence was obtained from other testing. • We selected a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and tested them by reference to member files. • We rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends were satisfactorily explained. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any significant issues in relation to the risk identified that we need to report to you.</p>




Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	<ul style="list-style-type: none"> Recorded contributions not correct 	<ul style="list-style-type: none"> We confirmed the existence of controls operated by the pension fund to ensure that it identifies and receives all expected contributions from member bodies. We substantively tested contributions deductions. We also reviewed contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends were satisfactorily explained. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any significant issues in relation to the risk identified that we need to report to you.</p>
Membership data	<ul style="list-style-type: none"> Member data not correct 	<ul style="list-style-type: none"> We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any significant issues in relation to the risk identified that we need to report to you.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Contribution Income:</p> <ul style="list-style-type: none"> Normal contributions are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate. Pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. <p>Investment Income:</p> <ul style="list-style-type: none"> Interest income is recognised in the fund account as it accrues. Dividend income is recognised by your fund managers on the date the shares are quoted ex-dividend. Distributions from pooled funds are recognised by your fund managers at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a financial asset. Movement in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. 	<ul style="list-style-type: none"> We have reviewed the revenue recognition policies stated in Note 3 of the Pension Fund accounts and can confirm that these are consistent with prior years. The revenue recognition policies are appropriate under the CIPFA 2013/14 Code of Practice on Local Authority Accounting. The revenue recognition policies are adequately disclosed. No evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement 	 <p>Accounting policy appropriate and disclosures sufficient</p>
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> Pension fund actuarial valuation Valuation of private equity, property, hedge fund and infrastructure investments 	<ul style="list-style-type: none"> Judgements and estimates are appropriate under the CIPFA 2013/14 Code of Practice accounting framework and are adequately disclosed in the accounting policies. No evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement. 	 <p>Accounting policy appropriate and disclosures sufficient</p>
Other accounting policies	<ul style="list-style-type: none"> The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting. 	<ul style="list-style-type: none"> We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make. 	 <p>Accounting policy appropriate and disclosures sufficient</p>

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Detail	Fund Account £'000	Net Assets Statement £'000
Employee contributions: London Borough of Croydon	(943)	
Employee contributions: Scheduled bodies	717	
Employee contributions: Admitted bodies	(3)	
Employer contributions: London Borough of Croydon	(2,693)	
Employer contributions: Scheduled bodies	2,986	
Employer contributions: Admitted bodies	3	
Early retirement costs recovered	46	
Benefits – pensions	14	
Benefits – lump sums	9	
Administrative expenses	(42)	
Investment income	(397)	
Net gains/(losses) on currency revaluations and underwriting commissions	(359)	
Change in market value of investments – unrealised	(157)	
Change in market value of investments – realised	376	
Investment management expenses	98	
Overall impact	(345)	

Impact of adjusted misstatements

All adjusted misstatements arising from our audit procedures are set out in detail here and on the next page along with the impact on the financial statements.

There were no non-trivial unadjusted misstatements.

Listed left are the detailed adjustments made to the Fund Account as identified by the finance team.

Adjusted misstatements

Listed below are the detailed adjustments made to the Net Assets Statement as identified by the finance team.

Detail	Fund Account £'000	Net Assets Statement £'000
Investments held by the Fund Managers: property		19
Investments held by the Fund Managers: private equity		244
Investments held by the Fund Managers: hedge funds		956
Debtors		(231)
Creditors		(4)
Cash held by the fund managers		(602)
Outstanding trades for securities sold		(3)
Outstanding trades for securities purchased		3
Outstanding dividends and tax reclaimable		(37)
Overall impact		345

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	8	Benefits – lump sums (retirement grants)	A small number of lump sum payments have been reclassified across the three categories. This reclassification was made concomitantly with the net increase of £9k in the total of benefits – lump sums on the face of the fund account, as shown on page 11.
	1	Benefits – lump sums (death grants)	
2 Disclosure	-	Investments, receivables and financial instruments	Adjustments identified by the finance team have resulted in a significant number of changes being made to the notes to the financial statements.
3 Disclosure	-	Contingent liabilities and contractual commitments (Note 17)	The note was updated to replace the previous values as at 31 December 2013 with those as at 31 March 2014.
4 Disclosures	-	Events after the Reporting Period (Note 24)	The note was updated for the investment valuations since 31 March and also inclusion of the four employers within the Croydon Scheme who are not complying with the Scheme regulations in respect of contributions.
5 Disclosures	-	Related Party Transactions (Note 7)	This note has been revised to disclose positions held by two Council members during at employers within the Croydon Scheme during 2013/14. Also included are the amounts of transactions during the year and balances held at year-end between these two employers and the Croydon Scheme.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

From the work we have completed we have not identified any significant weaknesses in internal controls.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> Pending the completion of our sample testing of related party transactions as set out on page 4, we are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Fees, non audit services and independence

We confirm our planned fee, which remains under review as explained below. We confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fund audit	21,000	TBC
Total audit fees	21,000	TBC

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

Additional audit work has been required, as set out in this report. We will discuss the implications for the audit fee with the Director of Finance and Assets following the conclusion of the audit and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Undertake a quality review of the draft financial statements before they are presented for audit and ensure all working papers are completed in accordance with the agreed timetable.	High	Agreed.	30 June 2015 Head of Pensions and Treasury Management Nigel Cook
2	Ensure all investment valuations are updated with the most recent information received from the Fund's custodian and fund managers when preparing the draft financial statements.	High	Agreed.	30 June 2015 Head of Pensions and Treasury Management Nigel Cook

Appendix B: Audit opinion – pension fund financial statements

We anticipate that we will provide the Fund with an unmodified audit report.

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Croydon for the year ended 31 March 2014 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 2013/14.

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

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

As explained more fully in the Statement of the Director of Finance and Assets and Section 151 Officer Responsibilities, the Director of Finance and Assets and Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Assets and Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Review of 2013/14 by the Chief Financial Officer to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the Financial Review of 2013/14 by the Chief Financial Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Susan M Exton
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
London
NW1 2EP

XX September 2014

Appendix C: Audit opinion – pension fund annual report

We anticipate that we will provide the Fund with an unmodified opinion for the pension fund annual report.

Opinion on the pension fund financial statements

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

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

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

As explained more fully in the Statement of the Director of Finance and Assets and Section 151 Officer Responsibilities, the Director of Finance and Assets and Section 151 Officer is responsible for the preparation of the pension fund financial statements, in accordance with applicable United Kingdom law. Our responsibility is report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Croydon, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Croydon for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

[We have not considered the effects of any events between the date we signed our report on the full annual statement of accounts (insert date) and the date of this statement.]

Susan M Exton
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
London
NW1 2EP

XX September 2014



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Foreword

Nigel cook to prepare/ June:

Speak with chair for picture/signature and text 16/07/14 NC emailing to find out

Councillor John Wentworth
Chairman of the Pension Committee

1. Management & Advisers

Pension Committee:

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

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

The Committee includes seven voting Members of the Council and five non-voting members: two pensioner representatives, one co-opted members and one employee representative. The members of Pensions Committee during the 2013/2014 Municipal year are listed below:

Councillors:

Chairman:	Dudley Mead
Vice-Chairman:	Jan Buttinger
Members:	Simon Hall Maggie Mansell Steve O'Connell John Wentworth Donald Speakman
Reserve Members:	Eddy Arram, Graham Bass, Carole Bonner Matthew Kyeremeh, Ian Parker, Raj Rajendran Sue Winborn

Non-voting members:

Pensioners' Representatives:	Gilli Driver Peter Howard
Co-opted Members:	Mike Brakes
Staff Representative:	Isa Makumbi

The Committee is supported by officers and independent external advisers.

Administering Authority:

The London Borough of Croydon Pension Fund
Finance and Assets, Chief Executive's Department
London Borough of Croydon
11A Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Richard Simpson
Director of Finance & Deputy S151 Officer

Investment Advisors:

Ian Bailey - AON Hewitt
Valentine Furniss – Independent Adviser

Actuary:

Hymans Robertson
20 Waterloo Street
Lanarkshire
Glasgow G2 6DB

Custodian of Assets:

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

Auditor:

Grant Thornton UK LLP (External), Deloitte (Internal)

Bank:

Royal Bank of Scotland

Legal Advisors:

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

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

AVC Provider:

Prudential
Laurence Pountney Hill
London EC4R 0HH

National Association of Pension Funds (NAPF):

Membership number : 3547

2. Administrators to the Fund

2.1. Fund Managers:



2.2. Administrators to the Fund:



3. Publications

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

Funding Strategy Statement

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

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

Governance Compliance Statement

The administering authority of a Local Government Pension Scheme (LGPS) is required to publish a Governance Compliance Statement. The statement aims to make the administration and stewardship of the scheme more transparent and accountable to stakeholders and provides the following details:

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

Statement of Investment Principles (SIP)

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

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

Communication Policy

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

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

Training Log

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

4. Membership

4.1. Organisations

4.1.1. Admitted:

Apetito	Interserve
BRIT School	London Hire Services Ltd
Cabrini Children's Society	Mayday Travel Ltd
Carillion Integrated Services	Olympic (South) Ltd
Churchill Services	Quadron Services
Creative Environmental Networks	Roman Catholic Archdiocese of Southwark
Croydon Community Mediation	Ruskin Private Hire
Croydon Voluntary Action	Skanska Construction
Eldon Housing Association	Sodexo Ltd
EM Highway Services Limited	Veolia Environmental Services (UK) Ltd
Fairfield (Croydon) Ltd	Vinci Facilities
Fusion	Wallington Cars and Couriers
Ground Control	
Impact Group Ltd	

4.1.2. Scheduled:

Addington High Academy	Oasis Academy Byron
Aerodrome Primary Academy	Oasis Academy Coulsdon
Applegarth Academy	Oasis Academy Shirley Park
ARK Oval Primary Academy	Pegasus Academy
Atwood Primary School	Riddlesdown Collegiate
Castle Hill Academy	Robert Fitzroy Academy
Coulsdon College	Shirley High School Performing Arts College
Croydon Care Solutions	St Cyprian's Greek Orthodox Primary School Academy
Croydon College	St James the Great RC Primary and Nursery School
David Livingstone Academy	St Joseph's College
Forest Academy	St Thomas Becket Catholic Primary School
Gonville Academy	The Quest Academy
Harris Academy Purley	West Thornton Primary Academy
Harris Academy South Norwood	Wolsey Junior Academy
Harris Academy Upper Norwood	Woodcote High School
Harris City Academy Crystal Palace	
Harris Primary Academy Benson	
Harris Primary Academy Kenley	
John Ruskin College	
Norbury Manor Business and Enterprise College for Girls	

4.2. Resources for Members

4.2.1. Croydon Council Pension Website

We launched our new website this year, it was designed and created by Hymans Robertson and can be found at <http://www.croydonpensionscheme.org/>

4.2.2. National Local Government Pension Scheme Web Site

The web site address is www.lgps.org.uk and the address for the new 2014 scheme is www.lgps2014.org.

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, it is updated regularly to ensure members have access to the latest up to date information.

4.2.3. Additional Voluntary Contributions

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

Further information can be obtained by calling the helpline on 0845 607 0077 or by visiting the website www.pru.co.uk/rz/localgov/.

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

4.2.4. 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.gov.uk/find-lost-pension

The Pension Tracing Service can help ex-members of pension schemes, who may have lost touch with their previous employers, to trace their pension entitlements.

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

The Pensions Section
11A, Bernard Weatherill House
8 Mint Walk
Croydon, CR0 1EA

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.

Members can log in to the service at: <https://croydon.pensiondetails.co.uk> and request an activation code.

5. Main Features of the Scheme

5.1. Eligibility for membership

Membership is generally available to employees of participating employers who have contracts of at least 3 months, are under age 75, and are not eligible for membership of other statutory pension schemes. Employees of designating bodies or admitted bodies can only join if covered by the relevant agreement.

5.2. Benefits on death in service

A lump sum is payable on death in service, normally equivalent to three years pay. The administering authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's widow, widower, civil partner, nominated cohabiting partner and dependent children.

5.3. Benefits on retirement

For membership from April 2008 onwards, pension benefits are calculated as 1/60th of final pay for each year of membership. Benefits for earlier membership consist of a pension calculated as 1/80th of final pay for each year of membership plus a lump sum of three times the pension. Actual membership may be enhanced automatically in cases of ill health retirement. Employers may choose to increase membership or pension. Members can normally exchange some pension to provide a bigger lump sum.

5.4. Benefits on death after retirement

A death grant is payable if less than 10 years pension has been paid and the pensioner is under age 75 at the date of death, in which case the balance of 10 years of pension is paid as a lump sum. Pensions are also generally payable to the pensioner's widow, widower, civil partner, nominated cohabiting partner and dependent children.

5.5. Extra benefits

The scheme offers several ways for members to improve benefits:

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

5.6. Employee contributions

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

The table below sets out the contribution bands which were effective from 1 April 2013. These are based on the pay bands for 2012/13 as increased by the September 2012 CPI figure of 2.2%, with the result rounded down to the nearest £100. Where a member had an annual incremental increase, this may have resulted in them paying a higher rate of contributions from April 2013.

Band	Salary Range	Contribution Rate
1	£0 - £13,700	5.5%
2	£13,701 - £16,100	5.8%
3	£16,101 - £20,800	5.9%
4	£20,801 - £34,700	6.5%
5	£34,701 - £46,500	6.8%
6	£46,501 - £87,100	7.2%
7	More than £87,100	7.5%

5.7. Age of retirement

Normal retirement age is age 65, but:

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

5.8. Pensions Increases

Pensions payable to members who retire on health grounds and to dependants in receipt of a pension in respect of a deceased member are increased annually by law in line with increases in inflation. Pensions payable to other members who have reached the age of 55 also benefit from this annual inflation proofing. Where a member has an entitlement to a Guaranteed Minimum Pension (which relates to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions through the State Pension.

LGPS pensions are increased in line with the rise in the Consumer Price Index (CPI), in accordance with the Pensions Increase Act 1971. Although pensions are increased in April, they are based on the rise in the CPI over the 12 months to the previous September. The pensions increase calculation for April 2013 was based on the increase in CPI during the 12 months preceding September 2012 and was set at 2.2%.

5.9. Pension Fund Fraud / National Fraud Initiative

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

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

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

6. Changes to the Local Government Pension Scheme

6.1. Public Service Pensions Act 2013

The Public Service Pensions Bill received Royal Assent on 25 April 2013 becoming the [Public Service Pensions Act 2013](#).

The Act introduces a number of new terms and provides the framework for the changes to public sector pension schemes. Some of the main areas it covers includes:

- Provides for scheme regulations to be made within a common framework and establishes new Career Average Revalued Earning schemes across public sector schemes
- For the majority of scheme members it links the normal retirement age to State Pension age (some exceptions for the armed forces, police and firefighters)
- Develops a new governance framework and introduces new terms including the Responsible Authority (the Secretary of State for Communities and Local Government), the Scheme Manager (the Administering Authority), the Pension Board (assisting the Scheme Manager at local level) the Scheme Advisory Board (providing advice to the Responsible Authority and the Pension Boards).
- Requires a cost control mechanism to keep the ongoing cost of the schemes within defined margins with steps outlining action to be taken.

6.2. Pensions Bill 2013/14

The LGA in conjunction with trade union colleagues issued a briefing note for the second reading of the Pensions Bill which took place on 17 June 2013. The briefing note highlighted the unintended consequences for public service pension schemes should the removal of contracting out for occupational schemes take place when a single tier state pension is introduced from April 2016. To read the briefing note can be found at: http://www.local.gov.uk/web/guest/legislation/-/journal_content/56/10180/4032027/ARTICLE

The LGA will be making representations on the financial implications the abolition of contracting out will have for both employees and employers in the LGPS as the Bill makes its way through committee stage in the House of Commons.

6.3. Pensions Tax Relief - Individual Protection from the Lifetime Allowance Charge

On 5 December 2012 the Government announced that the lifetime allowance would be reduced from £1.5 million to £1.25 million from April 2014. The Government also announced that it would be consulting on a “personalised protection regime” for individuals with pension pots valued at more than £1.25 million on 6 April 2014.

On 10 June 2013 HMRC published the consultation: Pensions Tax Relief – Individual Protection from the Lifetime Allowance Charge setting out the framework of how the individual protection regime will work. It will protect individuals from the lifetime allowance charge on any pension savings they have on 5 April 2014, which has been accumulated with UK tax relief with a value of between £1.25 million and £1.5 million. The consultation closed on 2 September

2013. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205777/130607_IP14_Condoc_Final.pdf

6.4. DWP guidance: Deferring your State Pension Age

On 18 June 2013, DWP published guidance on ‘deferring your State Pension Age’. The full report can be found at:

<https://www.gov.uk/government/publications/deferring-your-state-pension>

6.5. Annual fraud indicator 2013 report published

The annual fraud indicator for 2013 was published in June and makes reference to the £7.1 million lost due to pension fraud in local government (2011 figures). In total, public sector pension schemes lost £20.8 million due to fraud in 2011. The full report can be found

at: <https://www.gov.uk/government/publications/annual-fraud-indicator--2>

6.6. Written Ministerial Statement: Academies and LGPS Liabilities

On 2 July 2013 the Secretary of State for Education, Michael Gove, issued a Written Ministerial Statement regarding academies and outstanding LGPS liabilities. This statement sets out details of a guarantee that any outstanding LGPS liabilities on academy closure will be met by the Department for Education. This guarantee came into force on the 18 July 2013. In addition the statement outlined that a consultation will be issued by DCLG on proposals to amend the LGPS regulations so as to require local authorities to provide actuarial pooling should an academy wish to take up such an option. The full report can be found at: <https://www.gov.uk/government/speeches/academies-and-local-government-pension-scheme-lgps-liabilities>

6.7. Finance Act 2013

The Finance Act 2013 received royal assent on 17 July 2013. It includes a wide range of taxation measures and these include the reduction of the Lifetime Allowance from £1.5 million to £1.25 million from tax year 2014/15 onwards, the reduction of the annual allowance from £50,000 to £40,000 from tax year 2014/15 onwards and various transitional provisions.

6.8. Marriage (Same Sex Couples) Act 2013

The Marriage (Same Sex Couples) Act 2013 received royal assent on 17 July 2013. Section 16 of the Act, headed “Survivor benefits under occupational pension schemes” provides that the Secretary of State must arrange for a review of the relevant differences in survivor benefits in occupational pension schemes, being differences between:

- a) same sex survivor benefits and opposite sex survivor benefits provided to widows and widowers,
- b) opposite sex survivor benefits provided to widows and opposite sex survivor benefits provided to widowers. and review the costs, and other effects, of securing that relevant differences in survivor benefits are eliminated by the equalisation of survivor benefits.

The review must, in particular, consider the extent to which same sex survivor benefits are provided in reliance on paragraph 18 of Schedule 9 to the Equality Act 2010 and the extent to which same sex survivor benefits and opposite sex survivor benefits are calculated by reference to different periods of pensionable service.

6.9. Pensions and Fair Deal

New guidance on the Fair Deal policy was published by the Government on 7 October 2013. The guidance implements the reform of the Fair Deal policy to allow staff compulsorily transferred out of the public sector to remain in a public service pension scheme. In addition to the guidance, the Government's response to the consultation on the application of the policy to staff that have already been transferred out under Fair Deal has also been published. Both documents can be accessed using the following links:

<https://www.gov.uk/government/publications/fair-deal-guidance>

<https://www.gov.uk/government/consultations/further-consultation-on-the-fair-deal-policy>

6.10. DCLG Consultation – Pooling arrangements for Academies within the LGPS

On the 7 October 2013 DCLG issued a six week consultation which sets out to seek views on potential pooling arrangements within the LGPS regulations for Academies and Local Authorities. The consultation includes rationale to introduce Academy and Local Authority pooling arrangements with the following options for possible inclusion in scheme regulations:

- requiring that pension arrangements for an Academy, or several Academies, and the ceding local authority are pooled together should the Academy want this; or
- providing that the Academy, or several Academies, and the ceding local authority should be pooled together without any choice between the parties; or
- providing that the schools sector – Academies and local authority maintained schools – are pooled together.
- providing pooling arrangements for Academies only.

6.11. The Pensions Regulator Consultation on draft Codes of Practice

On the 10 December 2013 the Pensions Regulator (tPR) published a consultation on draft codes of practice for public service pension schemes to meet governance and administration requirements set out in the Public Service Pensions Act 2013.

TPR is also consulting on a draft regulatory strategy describing how it will educate and enable public service schemes to meet the standards of practice outlined in the code; but where necessary taking enforcement action to ensure the underlying legal requirements are adhered to.

6.12. Impact on the LGPS of increased trivial commutation and small pot payment limits

The Chancellor of the Exchequer as part of Budget 2014 announced an increase in the trivial commutations limit from £18,000 to £30,000 and an increase to the small pot payments limit from £2,000 to £10,000. These increases take effect from 27 March 2014 and will impact on all schemes including the LGPS. Details of these changes as well as the draft amending clauses to the Finance Act 2004 can be found in HMRC documentation available at

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293898/Pension_flexibility.pdf

6.13. The New LGPS 2014

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

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

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

- Career Average Revalued Earnings (CARE)
- 1/49th accrual rate with revaluation based on Consumer Prices Index (CPI)
- Retirement linked to State Pension Age (SPA)

- Contributions based on actual pay (including part time employees) with the average employee contribution remaining at 6.5%. No change to the expected overall net yield from employee contributions
- Retention of banded employee contributions, but with an extension to the number of bands with little or no increase in the employee rate at the lower bands but more significant increases at higher pay bands, even after allowing for tax relief
- '50/50' scheme option enabling members to pay half contributions for half the pension, with most other benefits remaining as they are currently
- Benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current retirement age
- Outsourced scheme members will be able to stay in the scheme on first and subsequent transfers
- Vesting period extended from 3 months back to two years.

All other terms remain as in the current scheme including death in service benefits, ill-health provision and the lump sum trade-off.

6.13.1. LGPS 2014 – Communications

The Local Government Pensions Committee (LGPC) have produced a wealth of guides, leaflets and publications for scheme administrators, employers, payroll sections and scheme members to assist with understanding and communicating the new scheme.

6.13.2. Payroll and HR Specifications

Following meetings with interested stakeholders, a payroll specification to assist employers and their software suppliers when developing payroll systems for April 2014 was published. In addition an HR specification has also been produced which contains information on the processes required to administer the scheme from April 2014. Both are expected to be updated as and when required in the run-up to LGPS 2014.

Both specifications are available online from a new website www.lgpsregs.org. This new website will be the home of all employer and administering authority related information on the LGPS from April 2014. As well as the guidance noted above it will also contain the timeline regulations for the new scheme, access to statutory and GAD guidance, links to other related legislation and in time the aim is to provide the facility to submit queries via the website.

- Administration and Employer Guides and Forms
- Following the laying of the LGPS (Transitional Provisions, Savings and Amendment)

Regulations 2014 a number of documents were released, some new and others updated to reflect the release of the laid Transitional Regulations. These include:

- Discretions policy document
- Underpin paper
- Aggregation paper
- Annual benefits statement paper
- Discretions list
- Revaluation paper
- Survivors' benefits paper
- 85 year rule paper

These papers are available at <http://www.lgpsregs.org/index.php/guides/administration-guides-to-the-2014-scheme>

6.13.3. Terminology Document

A 'Terminology Document' to help communicate the changes to the Scheme has been published. In particular a number of new terms are required to explain the new scheme from 1 April 2014. By outlining agreed ways of communicating these terms it's hoped that it will assist scheme managers (i.e. administering authorities) and other LGPS stakeholders in communicating a cohesive and consistent message relating to LGPS 2014 to all stakeholders including scheme members. The 'Terminology Document' can be found at: <http://www.local.gov.uk/web/lgaworkforcepensions/lgps2014comms>

6.13.4. Scheme members website

On the 18 November 2013 the LGPS 2014 member website (www.lgps2014.org) was re-launched. This re-launch included a new look for the website as well as updated content and information. As part of the re-launch of www.lgps2014.org three topic based videos were also released. The three topics covered include:

- Contributions and the flexibility to pay more or less
- How is my pension worked out?
- When can I take my pension?

6.13.5. Account Modeler

In February a pensions account modeler designed to help members understand how pension accounts work was added to www.lgps2014.org. The modeller shows how a pension builds up from April 2014, it is not designed to provide an estimate of benefits. The facility allows members to input pensionable pay, and figures for assumed inflation and pay increases and also view the impact of electing for the 50/50 section of the scheme on pension build up in the LGPS.

6.13.6. Contribution Calculator

A Contribution Calculator for the new scheme was launched on the 13 March 2014. The calculator requires users to input some information including their annual pensionable pay, pay frequency, section of the scheme they are in and whether they are over State Pension Age. The results will include both the gross and net contribution amount for the new scheme. This is available at: <http://www.lgps2014.org/content/what-will-new-scheme-cost-me>

6.13.7. Leaflets and Communication Plan

A suite of topic based leaflets are available on the LGA's website (<http://www.local.gov.uk/web/lgaworkforcepensions/lgps2014comms>) and include the following:

- Paying into the LGPS before 1st April 2014
- Scheme changes leaflet
- Contributions and the flexibility to pay more or less
- How is my pension worked out?
- When can I take my pension?
- Mythbusting LGPS 2014

The LGPS 2014 Communications Plan was also published on the LGA's website on the 18 November 2013 and includes updated release dates for various communication items as well as additional information including a planned poster, communication items for elected members on LGPS 2014 and the administering authority (scheme manager) guide.

6.13.8. Employee Guides

A full and brief guide for employees is available

at: <http://www.lgpsregs.org/index.php/guides/employees-guides>

6.13.9. LGPS 2014 – Legislation

The Local Government Pension Scheme Regulations 2013 (SI 2013/2356) were made on the 12 September and laid before parliament 19 September 2013, coming into force 1 April 2014.

The Local Government Pension Scheme (LGPS) (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525) were made on the 5 March 2014, laid before parliament 10 March 2014, coming into force 1 April 2014.

All legislation relating to the LGPS 2014 can be found at: <http://www.lgpsregs.org/>

6.13.10. LGPS 2014 - Consultations

The Department for Communities and Local Government (DCLG) issued several consultations on draft regulations for LGPS 2014 during the year, these can be found at: <http://www.clg.heywood.co.uk/views/availableDocuments>

7. Management of the Assets

The distribution of the Fund's assets among investment managers at 31st March 2014 is outlined below.

Investment Manager	Investment Mandate	% of Fund
Fidelity	Global Equities including pooled emerging markets (Segregated)	16.77%
Franklin Templeton	Global Equities (Segregated)	12.12%
Global Thematic Partners	Global Thematic Equities (Segregated)	11.62%
Legal & General	Global Equity (Pooled)	12.15%
Standard Life	Corporate Bond Fund and Absolute Return Global Fund (Pooled)	15.22%
Wellington	Sterling Core Bond (Pooled)	6.78%
Pantheon	Private Equity Invest in unquoted companies (Pooled FofF) (US Dollar & Euro)	3.08%
Equitix	Private Equity – PFI Projects (Pooled)	3.53%
Knightsbridge	Private Equity – Venture Capital (Pooled FofF) (US Dollar)	1.05%
Bluecrest	Fund of Hedge Funds (Pooled FofF)	3.97%
Henderson Global	European Property Funds	1.48%
Schroder	UK Property Funds	7.24%
All Fund Managers – Cash Management	Maximising short term returns prior to the investment of funds	0.87%
LB of Croydon Cash Management	Cash LIBID 7 day notice deposit account	0.65%
Goldman Sachs Account	AAA Rated Money Market Fund	0.80%
Deposit at Lloyds Bank	Fixed Deposit	2.68%
Total		100.00%

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

Asset Allocation

Following consultation with the Fund's investment advisors, a revised target asset allocation was implemented in 2012/13. The target asset allocation is outlined in the table below.

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

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

7.1. Fees

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

7.2. Monitoring the Investment Managers

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

7.3. Realisation of Investments

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

7.4. Pension Committee Arrangements

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

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

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

7.5. Custody

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

8. Investment Report

8.1. General

During 2013/14, local authority pension funds experienced an average increase in value of 6.0%. During the same period, CPI inflation increased by 1.8% and average weekly earnings increased by 1.7%.

Equity markets continued to perform strongly during the financial year ending 31 March 2014. The UK equity market returned 11.3% ahead of Japan at 0.5% but behind North America and Europe who returned 11.9% and 15.1% respectively. The Pacific and Emerging Markets were the worst performing regions, returning -7.1% and 2.1% respectively. Whilst UK bonds (gilts) returned a disappointing -2.1% they outperformed the -6.1% returns of overseas bonds. Property returned 11% over the year to 31 March 2014

8.2. Strategy

The Pension Committee reviews its strategy for allocating the Pension Fund assets amongst various investment categories to coincide with the Actuarial Triennial Valuation. The revised asset allocation strategy is intended to generate an investment return on the Fund in line with the requirements of the Actuary's recovery plan as set out in the Actuarial Triennial Valuation report. The most recent triennial valuation was calculated as at the 31st of March 2013.

The current strategy was agreed during the first quarter of 2013. In light of the recent triennial valuation, asset allocation of the Fund will be reviewed towards the end of 2014.

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

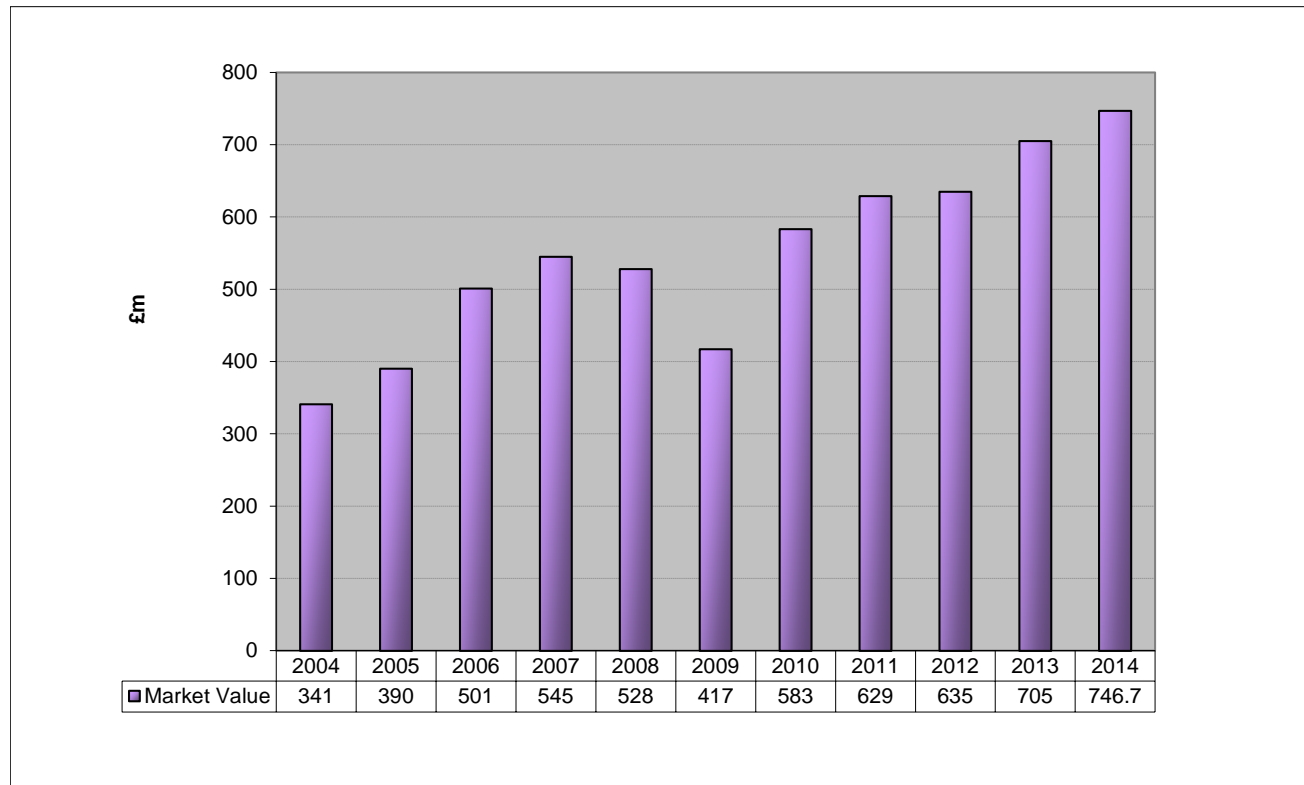
8.3. Performance

The Fund's performance is compared with the Council's own customised benchmarks and to the average return from 85 local authority pension funds, as measured by WM Company. During the 2013/14 financial year the Fund's return of 5.4% underperformed its customised benchmark of 6.7% by 1.3%. The Fund also underperformed the average return for local authorities of 6%.

As at the 2013 Actuarial Valuation the Fund's funding level was 66.3%, a marginal increase from the 66% funding level as calculated at the 2010 Actuarial Valuation. The 2013 triennial valuation contribution rates took effect from 1 April 2014.

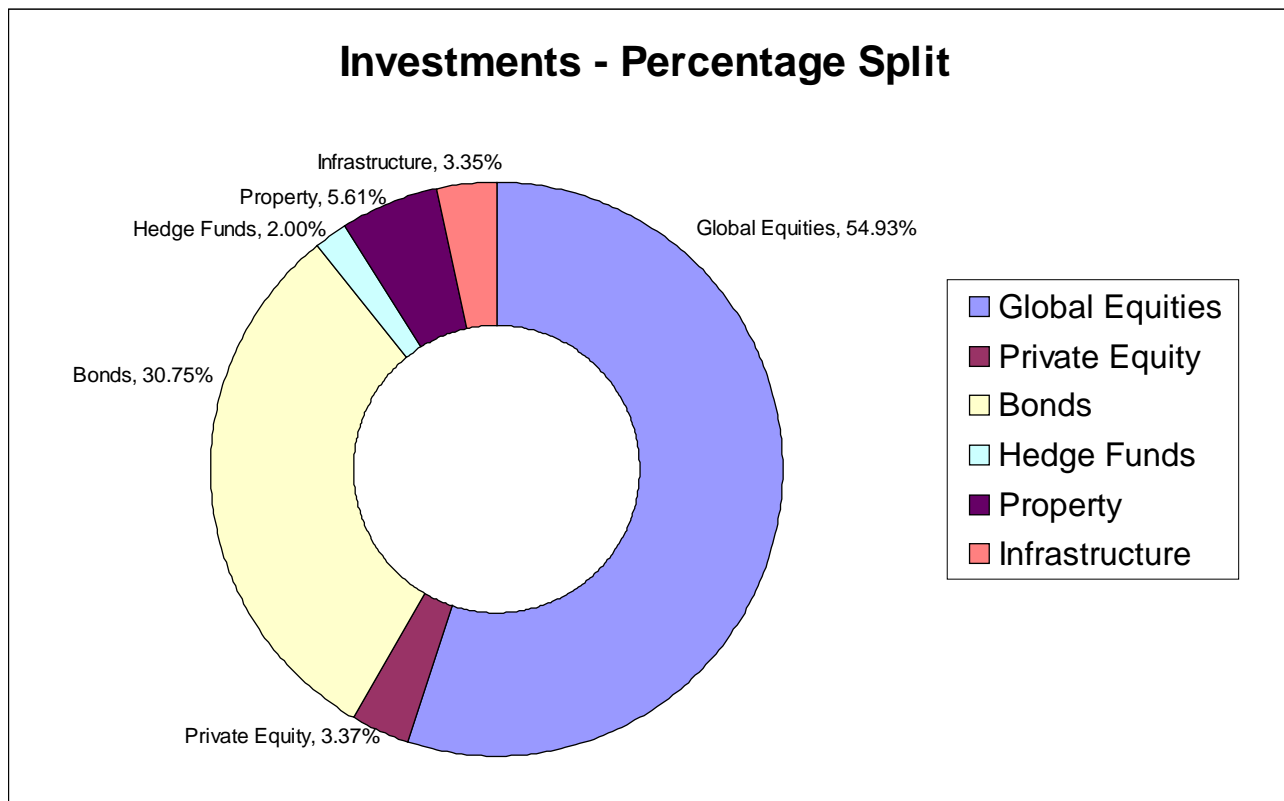
8.4. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2014 were £741.8 million compared with £341 million at 31 March 2004. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2013/14 £m	%
Market Value of investments	708.3	95.48
Other Balances held by Fund Managers	1.1	0.15
Cash held by Fund managers	6.4	0.86
LBC Fund Net Current Assets	26.0	3.51
Total at the end of the year	741.8	100.0

8.5. Distribution of Assets by Market Value – to do



Investments	2013/14 £000s	% of Investments
Global Equities	390.7	52.33
Private Equity	30.6	4.10
Bonds	164.4	22.02
Hedge Funds	29.7	3.97
Property (of which UK 7.4% European 1.6%)	66.2	8.87
Infrastructure	26.7	3.59
Cash	38.3	5.12
Total at the end of the year	746.7	100.0

8.6. Statistics 2013/2014

Returns	Croydon Fund	Average Local Authority
1 year (% per year)	5.4	6.4
3 years (% per year)	5.9	7.5
5 years (% per year)	11.8	12.7
10 years (% per year)	7.6	7.8

Pension Fund Investment Distribution:	Croydon Fund	Average Local Authority
Global Equities	52.33	62.60
Private Equity	4.10	4.20
Bonds	22.02	16.50
Hedge Funds	3.97	2.20
Property	8.87	7.50
Infrastructure	3.58	0.80
Cash	5.12	3.00

8.7. Top 25 Global Holdings

	Market Value at 31 March 2014	% of Total Global Equity Investment
APPLE INC	6,359,526	1.93%
ROCHE HLDG AG	4,652,823	1.41%
AMAZON COM INC	3,288,244	1.00%
ADOBE SYSTEMS INC	3,221,641	0.98%
DANAHER CORP	2,900,885	0.88%
SYNGENTA AG	2,773,505	0.84%
RECKITT BENCKISER GROUP PLC	2,741,046	0.83%
UNITED OVERSEAS BANK	2,736,806	0.83%
SAMSUNG ELECTR	2,728,943	0.83%
VISA INC	2,691,280	0.82%
NOBLE GROUP	2,668,409	0.81%
UNITE UK STUDENT ACCOMODATION	2,629,634	0.80%
UMICORE NPV	2,599,301	0.79%
CSL	2,574,807	0.78%
MTU AERO ENGINES	2,507,040	0.76%
DISCOVERY COMMUNICATIONS INC	2,480,581	0.75%
DASSAULT SYSTEMES	2,458,884	0.75%
INTERCONTINENTAL EXCHANGE INC	2,432,481	0.74%
ARM HOLDINGS	2,394,000	0.73%
ROYAL DUTCH SHELL PLC	2,383,461	0.72%
ALKERMES PLC	2,379,630	0.72%
YASKAWA ELECTRIC	2,320,675	0.71%
BURBERRY GROUP	2,318,222	0.70%
DISCOVER FINANCIAL SERVICES	2,268,752	0.69%
BANK OF NOVA SCOTIA	2,261,786	0.69%
	70,772,361	21.49%

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, Carillion Integrated Services, Churchill Services, Creative Environmental Networks, Croydon Citizen's Advice Bureau, Croydon Community Mediation, Croydon Voluntary Action, Eldon Housing Association, EM Highway Services Ltd, Fairfield (Croydon) Ltd, Fusion, Ground Control, Impact Group Ltd, Interserve, London Hire Services Ltd, Mayday Travel Ltd, Olympic (South) Ltd., Quadron Services, Roman Catholic Archdiocese of Southwark, Ruskin Private Hire, Skanska Construction, Sodexo Ltd, Veolia Environmental Services (UK) Ltd, Vinci Facilities, Wallington Cars and Couriers.

Scheduled:

Addington High Academy, Aerodrome Primary Academy, Applegarth Academy, ARK Oval Primary Academy, Atwood Primary School, Castle Hill Academy, Coulsdon College, Croydon Care Solutions, Croydon College, David Livingstone Academy, Forest Academy, Gonville Academy, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Upper Norwood), Harris City Academy (Crystal Palace), Harris Primary Academy (Benson), Harris Primary Academy (Kenley), John Ruskin College, Norbury Manor Business and Enterprise College for Girls, Oasis Academy Byron, Oasis Academy Coulsdon, Oasis Academy Shirley Park, Pegasus Academy, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Shirley High School Performing Arts College, St Cyprian's Greek Orthodox Primary School Academy, St James the Great RC Primary and Nursery School, St Joseph's College, St Thomas Becket Catholic Primary School, West Thornton Primary Academy, Wolsey Junior Academy, Woodcote High School.

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, one co-opted non-voting member and a non-voting employee representative. In addition, the Committee is supported by officers and external advisors.

STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND

1. GENERAL PRINCIPLES

The financial statements have been prepared in accordance with the provisions of Sections 6.5.1 to 6.5.5 of the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice on Local Authority Accounting in the United Kingdom is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

2. STATEMENT OF INVESTMENT PRINCIPLES

This is published on the Croydon Pension Scheme web page <http://www.croydonpensionscheme.org/>

3. BASIS OF PREPARATION

Accruals

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

Going Concern

The Pension Fund Accounts have been prepared on a going concern basis. That is the accounts assume that the Fund will continue in operational existence for the foreseeable future. This means, in particular, that the accounts assume that there is no intention to curtail significantly the scale of operations.

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

- ▶ **Interest income:** Interest income is recognised in the fund account as it accrues.
- ▶ **Dividend income:** Dividend income is recognised by our fund managers on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- ▶ **Distributions from pooled funds:** Distributions from pooled funds are recognised by our fund managers at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a financial asset.
- ▶ **Movement in the net market value of investments:** Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are recharged at year end from the Authority to the Pension Fund.

Investment management expenses

All investment management expenses are accounted for an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. A proportion of the Council's costs representing management time spent by officers on investment management are recharged to the Fund.

STATEMENT OF ACCOUNTING POLICIES AND PRINCIPLES - PENSION FUND**Financial assets**

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

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 23).

Assumptions made about the future and other major sources of estimation uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year.

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund managers with expert advice about the assumptions to be applied.

Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 18).

4. EARLY RETIREMENT COSTS DUE TO REDUNDANCY

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

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014

CONTRIBUTIONS AND BENEFITS

	Note No.	2013/14 £000	2012/13 £000
Employees' contributions:			
London Borough of Croydon		7,779	7,380
Scheduled bodies		1,424	1,095
Admitted bodies		606	468
Employers' contributions:			
London Borough of Croydon		32,008	25,708
Scheduled bodies		5,228	3,988
Admitted bodies		1,832	1,474
Transfer values received	15	2,729	4,076
Early retirement costs recovered	8	712	1,196
		52,318	45,385
Benefits - Pensions		35,714	34,086
- Lump sums	14	8,535	7,349
Payments to and on account of leavers - Refund of contributions		6	9
- Transfer values paid	15	2,568	2,678
Administrative expenses	11	1,744	1,093
		48,567	45,215
Net additions / (withdrawals) from dealings with members		3,751	170

RETURNS ON INVESTMENTS

	Note No.	2013/14 £000	2012/13 £000
Investment income	13	7,096	6,543
Taxes on income	13	(768)	(579)
Net gains / (losses) on currency revaluations and underwriting commissions		221	112
Change in market value of investments:			
Unrealised	3	(10,860)	50,754
Realised	3	39,160	13,675
Investment management expenses	12	(2,005)	(1,332)
		32,844	69,173
Net returns on investments			
Net increase / (decrease) in the Fund during the year		36,595	69,343
Net assets at the start of the year		705,292	635,949
Net assets at the end of the year		741,887	705,292

PENSION FUND ACCOUNTS - NET ASSETS STATEMENT

NET ASSETS STATEMENT AS AT

	Note No.	31 March 2014 £000	31 March 2013 £000
Investments held by the Fund Managers:			
Global equities - segregated funds	2 - 5	284,739	264,296
Global equities - pooled funds	2 - 5	107,866	102,649
Private equity	2 - 5	30,804	22,492
Infrastructure	2 - 5	26,314	22,403
Bonds	2 - 5	164,037	205,413
Hedge funds	2 - 5	29,567	13,334
Property	2 - 5	65,028	37,480
Total Investments held by the Fund Managers		708,355	668,067
Other Balances held by the Fund Managers			
Outstanding dividends and tax reclaimable	9	688	713
Outstanding trades for securities sold	9	2,162	2,570
Outstanding trades for securities purchased	10	(1,736)	(3,282)
Total Other Balances held by the Fund Managers		1,114	1
Cash held by the Fund Managers		6,477	7,830
Total Assets held by the Fund Managers		715,946	675,898
Net Current Assets:			
Debtors	9	1,717	1,544
Cash held by the London Borough of Croydon		4,882	11,752
Cash on deposit with Goldman Sachs		5,950	6,984
Short-term deposit at Lloyds Bank		20,000	15,000
Creditors	10	(6,608)	(5,886)
Net Assets at the End of the Year		741,887	705,292

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.

Actuarial Estimates:

Please refer to the Basis of Preparation section under the Statement of Accounting Policies and Principles for further details on actuarial estimates.

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 2013/14 are as follows:

- ▶ Croydon Council (including schools' non-teaching staff) - 13.1%
- ▶ Scheduled bodies - 13.1%
- ▶ 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. A further triennial Actuarial Valuation was prepared as at 31 March 2013. The contribution rates referred to in the 2013 triennial valuation will take effect from 1 April 2014.

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 'Other Grouped Bodies' overleaf)	1.0	14.1	211	221	231
London Borough of Croydon and Grouped Scheduled Bodies (see 'Grouped Scheduled Bodies' and Note a overleaf)	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)

1. ACTUARIAL POSITION (continued)

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.

Grouped Scheduled Bodies

Croydon College, Coulsdon College, John Ruskin College, St Joseph's College.

Notes

- a. Includes the former Grant Maintained Schools.
- b. 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.
- c. 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 £16,427,000.

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

2. INVESTMENTS

On 3 September 2013, the Pension Committee agreed to authorise the Director of Finance and Assets and Section 151 Officer 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 2013/14 the Pension Committee agreed modifications to the original allocations, the details of which are outlined in Note 25.

2. INVESTMENTS (continued)

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

* The fund fully redeemed its investment with Sarasin on 21 March 2014 and transitioned the proceeds to a passive global equity fund at Legal and General.

** The fund terminated its fund of property funds agreement with Henderson Global Investors on 31 December 2013 and the underlying property funds were in the process of being transferred to Schroder Investment Management at 31 March 2014.

VALUATION OF INVESTMENTS

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

Segregated Global Equities (Fidelity, Franklin Templeton, Deutsche Bank)

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

The BoNYM pricing unit operates under the following pricing guidelines:

Designation of a primary source

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

Use of Secondary Pricing Sources; Client / Manager Price Direction**Missing Prices**

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

Tolerance Checks

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

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

2. INVESTMENTS (continued)**Pooled Global Equity Funds (Sarasin, Fidelity, Franklin Templeton and Legal and General)****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 fund fully redeemed its holdings in Sarasin at 21 March 2014.

Bonds**Standard Life - Trustee Investment plan**

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

Wellington - Sterling Core Bond Plus

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

Private Equity and Infrastructure Investments

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

Hedge Funds

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

Property

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

Cash

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

Short Term Deposits

As at 31 March 2014 the Fund had two fixed term deposits with Lloyds Bank for £5 million and £15 million maturing on 4 April 2014 and 7 April 2014 respectively.

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	264,296	203,102	(200,160)	28,605	(11,104)	284,739
Global equities - pooled funds	102,649	93,230	(91,725)	5,484	(1,772)	107,866
Private equity	22,492	8,147	(749)	803	111	30,804
Infrastructure	22,403	3,500	(3,137)	0	3,548	26,314
Bonds	205,413	883	(42,100)	5,015	(5,174)	164,037
Hedge funds	13,334	15,000	0	0	1,233	29,567
Property	37,480	32,206	(6,209)	(747)	2,298	65,028
	668,067	356,068	(344,080)	39,160	(10,860)	708,355

4. ANALYSIS OF INVESTMENTS

Investments are valued at the close of business on 31 March 2014 in accordance with the valuation methodologies detailed in Note 2.

	2014		2013	
	Market £000	Market %	Market £000	Market %
Global equities - segregated funds (Quoted)				
DB Advisors	85,285	12.0%	81,287	12.2%
Fidelity	110,585	15.6%	99,779	14.9%
Franklin Templeton	88,869	12.5%	83,230	12.5%
Total equities - segregated	284,739	40.1%	264,296	39.6%
Global equities - pooled funds (Quoted)				
DB Advisors	1,343	0.2%	0	0.0%
Fidelity	14,463	2.0%	15,496	2.3%
Franklin Templeton	1,473	0.2%	1,823	0.3%
Sarasin	0	0.0%	85,330	12.8%
Legal and General	90,587	12.8%	0	0.0%
Total equities - pooled	107,866	15.2%	102,649	15.4%
Private Equity (Unquoted)				
Pantheon Ventures	22,948	3.2%	16,974	2.5%
Knightsbridge	7,856	1.1%	5,518	0.8%
Total private equity	30,804	4.3%	22,492	3.3%
Infrastructure (Unquoted)				
Equitix	26,314	3.4%	22,403	3.4%
Total Infrastructure	26,314	3.4%	22,403	3.4%
Bonds (Quoted)				
Standard Life	113,513	16.0%	126,549	18.9%
Wellington	50,524	7.1%	78,864	11.8%
Total Bonds	164,037	23.1%	205,413	30.7%
Hedge Fund of Funds (Unquoted)				
Bluecrest	29,567	4.2%	13,334	2.0%
Total Hedge Fund of Funds	29,567	4.2%	13,334	2.0%
Property (Quoted)				
Henderson Global Investors	11,041	1.6%	11,189	1.7%
Schroder	53,987	7.6%	26,291	3.9%
Total Property	65,028	9.2%	37,480	5.6%
Total investments	708,355	100.0%	668,067	100.0%

4. ANALYSIS OF INVESTMENTS (continued)

Equity markets experienced high volatility during the first half of the 2013/14 accounting period. This was a combination of weak economic news from the Eurozone, fears of a slowing Chinese economy and indications that the Chairman of the Federal Reserve intended to reduce the program of quantitative easing. The FTSE 100 started the year at 6,412 before experiencing a sharp dip to 6,092 and rising to a high of 6,838 in February before finishing the year at 6,598. European equities experience growth in the latter part of year, the US posted mixed performance, UK equities lost value as a result of disappointing earnings and emerging markets suffered on the back of slow growth in China.

5. GEOGRAPHICAL ANALYSIS OF INVESTMENTS

	2014			2013		
	UK £000	Foreign £000	Total £000	UK £000	Foreign £000	Total £000
Global equities - segregated funds (Quoted)						
DB Advisors	6,366	78,919	85,285	3,095	78,192	81,287
Fidelity	23,027	87,558	110,585	8,077	91,702	99,779
Franklin Templeton	9,145	79,724	88,869	6,598	76,632	83,230
Total equities	38,538	246,201	284,739	17,770	246,526	264,296
Global equities - pooled funds (Quoted)						
DB Advisors	0	1,343	1,343	0	0	0
Fidelity	0	14,463	14,463	71	15,425	15,496
Franklin Templeton	0	1,473	1,473	0	1,823	1,823
Sarasin	0	0	0	0	85,330	85,330
Legal and General	0	90,587	90,587	0	0	0
Total pooled investments	0	107,866	107,866	71	102,578	102,649
Private Equity (Unquoted)						
Pantheon Ventures	0	22,948	22,948	0	16,974	16,974
Knightsbridge	0	7,856	7,856	0	5,518	5,518
Total private equity	0	30,804	30,804	0	22,492	22,492
Infrastructure (Unquoted)						
Equitix	26,314	0	26,314	22,403	0	22,403
Total Infrastructure	26,314	0	26,314	22,403	0	22,403
Bonds (Quoted)						
Standard Life	113,513	0	113,513	126,549	0	126,549
Wellington	0	50,524	50,524	0	78,864	78,864
Total Bonds	113,513	50,524	164,037	126,549	78,864	205,413
Hedge Fund of Funds (Quoted)						
Bluecrest	29,567	0	29,567	13,334	0	13,334
Total Hedge Fund of Funds	29,567	0	29,567	13,334	0	13,334
Property (Quoted)						
Henderson Global Investors	0	11,041	11,041	0	11,189	11,189
Schroder	53,987	0	53,987	26,291	0	26,291
Total Property	53,987	11,041	65,028	26,291	11,189	37,480
Total investments	261,919	446,436	708,355	206,418	461,649	668,067

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.

7. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES (continued)**Trustee Related Parties**

Trustee related parties include:

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

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

Officers and Managers

Related parties under this heading include:

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

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

The only financial relationship that either trustees or officers and managers have with the Fund is as prospective or actual pensioners for those who are scheme members. For further details please refer to Note 32 of the London Borough of Croydon's Statement of Accounts 2013/14.

8. COST OF EARLY RETIREMENT DUE TO REDUNDANCY

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

During the financial year 2013/14 the capitalised cost of early retirements (due to redundancy) requiring reimbursement to the Pension Fund was £0.5m of which £0.5m was reimbursed during 2013/14. From 2010/11 the entire capitalised cost of early retirement was due the year in which it was incurred.

At the commencement of the financial year 2013/14, £0.1m (2012/13 £0.3m) of capitalised early retirement costs relating to prior year redundancies were the subject of reimbursements to the Pension Fund by annual instalments. During 2013/14, £0.1m (2012/13 £0.2m) was reimbursed to the Pension Fund.

9. DEBTORS

	2013/14 £000	2012/13 £000
Other Local Authorities - Croydon Council	473	618
Other Local Authorities	0	15
Other Entities and Individuals:		
Investment Income	688	713
Investment Disposals	2,162	2,570
Sundry Debtors	1,244	911
	4,567	4,827

10. CREDITORS

	2013/14 £000	2012/13 £000
Other Local Authorities - Croydon Council	(5,215)	(4,550)
Other Local Authorities - LB Bromley	0	(17)
Other entities and individuals		
Investment purchases	(1,736)	(3,282)
Sundry expenses	(1,393)	(1,319)
	(8,344)	(9,168)

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

	2013/14 £000	2012/13 £000
Pensions administration and payroll (see note below)	1,034	840
Audit Fees	21	21
Actuarial expenses and valuation fees	269	102
Other administrative expenses	420	130
	1,744	1,093

Croydon Council's Pensions and Treasury section officers' time and related on-costs have been recharged to the Pension Fund, totalling £834k (2012/13: £666k). These relate to Croydon Council's costs of pensions administration and the non investment accounting work.

12. INVESTMENT MANAGEMENT EXPENSES

	2013/14 £000	2012/13 £000
Fund managers' fees (see (a) below)	1,680	738
Investment advisors' fees	193	324
Direct salary and other related expenses (see (b) below)	132	270
	2,005	1,332

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

(b) Croydon Council's Pensions and Treasury section officers' time and related on costs totalling £132k (2012/13: £270k) have been recharged to the Pension Fund. These costs relate to all aspects of administering the investments of the Pension Fund, including investment monitoring.

13. INVESTMENT INCOME

	2013/14 £000	2012/13 £000
Distributions from global equity fund managers	4,645	4,653
Infrastructure distribution	0	8
Henderson property funds	221	235
Schroder property funds	938	1034
Interest on cash deposits	513	26
Other interests and adjustments	11	8
	6,328	5,964

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

14. LUMP SUMS

	2013/14 £000	2012/13 £000
Lump sum retirement benefits	7,435	6,551
Ill health retirement grants	177	167
Death grants	923	631
	8,535	7,349

15. TRANSFERS VALUES PAID AND TRANSFERS VALUES RECEIVED

	Transfers paid		Transfers received	
	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000
Individual transfers	2,568	2,678	2,729	4,076
Total	2,568	2,678	2,729	4,076

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 2014. The Fund had the following contractual commitments denominated in Sterling, Euros and Dollars.

Fund Manager	Committed 000s	Drawn 000s	Due 000s
Pantheon			
USA IV Fund	\$16,151	\$14,940	\$1,211
USA IX Fund	\$23,200	\$6,867	\$16,333
PGCO II Fund	\$16,000	\$5,440	\$10,560
Asia III Fund	\$1,997	\$1,858	\$139
Asia VI Fund	\$12,000	\$3,420	\$8,580
Euro III Fund	€ 12,299	€ 11,315	€ 984
Euro VII Fund	€ 17,000	€ 4,845	€ 12,155
Equitix			
Fund I	£10,000	£9,674	£326
Fund II	£10,000	£6,135	£3,865
Energy Efficiency Fund	£10,000	£1,142	£8,858
Knightsbridge			
KVC VII	\$13,000	\$9,360	\$3,640
KVC VIII	\$15,000	\$600	\$14,400

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 £255k for 2013/14 (£259k in 2012/13), are sent directly to the relevant AVC provider.

The value at 31 March 2014 of separately invested additional voluntary contributions was £1.75m (£1.6m in 2012/13).

19. TOTAL CONTRIBUTIONS RECEIVABLE

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

20. TAXATION

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation except for tax deducted at source from Real Estate Investment Trusts (REIT's). With respect to overseas tax, where a taxation agreement exists between this country and another whereby a proportion of withholding tax deducted from investment income can be recovered, this will be reclaimed, although the amount and timescales vary from one country to another. The amount of irrecoverable withholding tax paid in 2013/14 was £0.77m (£0.6m in 2012/13).

21. MEMBERSHIP

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

	2013/14	2012/13	% change
Contributing members	7,605	7,501	1.39%
Deferred pensioners	7,600	7,196	5.61%
Pensioners	6,578	6,366	3.33%
Total	21,783	21,063	3.42%

Active membership will be higher than the number provided above due to employees brought in via auto enrolment during the year which will be set up post preparation of the accounts.

22. CONTRIBUTIONS TO THE FUND

Employees in the scheme are required by the Local Government Pension Scheme Regulations 1997 as amended in April 2007 to make contributions to the Fund by deductions from earnings. The contribution rate payable is determined by the pay band applicable to each individual employee. The pay bands are detailed below:

Band	Range £	Contribution Rate %
1	0 -13,700	5.5%
2	13,701-16,100	5.8%
3	16,101-20,800	5.9%
4	20,801-34,700	6.5%
5	34,701-46,500	6.8%
6	46,501-87,100	7.2%
7	87,100+	7.5%

For the year ended 31 March 2014 the employers' rate was the same as for 2012-13, at 23.2% (consisting of 13.1% of pensionable pay and a lump sum deficit payment) for Croydon Council, the schools' non-teaching staff and scheduled bodies. Admitted bodies' rates varied depending upon the rates determined by the Actuary.

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

International Financial Reporting Standards require a disclosure of the Fund's past service liabilities in a manner consistent with International Accounting Standard 19 (IAS19), and the requirements of International Accounting Standard 26 (IAS26). It should be noted that some of the assumptions used when calculating liabilities under IAS19 are different compared to those when producing an on-going funding valuation under the Local Government Pension Scheme (Administration) Regulations 2008.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering Authorities of LGPS funds that prepare Pension Fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in Pension Fund accounts:

- ▶ showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- ▶ as a note to the accounts; or
- ▶ by reference to this information in an accompanying actuarial report.

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

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

Balance Sheet

Year ended	31 Mar 2014 £m	31 Mar 2013 £m
Present value of Promised Retirement Benefits	1,321	1,267

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £472m in respect of employee members, £304m in respect of deferred pensioners and £545m 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.

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to decrease the actuarial present value by £1m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2014 %p.a.	31 Mar 2013 %p.a.
Inflation/Pensions Increase Rate	2.8%	2.8%
Salary Increase Rate *	3.6%	4.6%
Discount Rate	4.3%	4.5%

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

Longevity Assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.3 years	24.4 years
Future Pensioners *	24.4 years	26.7 years

* Future pensioners are assumed to be currently aged 45.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation Assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 50% of the maximum tax-free cash for post-April 2008 service.

Professional Notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 24 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Richard Warden FFA

16 May 2014

For and on behalf of Hymans Robertson LLP

24. EVENTS AFTER THE REPORTING PERIOD

At the end of June 2014 the market value of the Fund's investments had increased by £42m, of which £25m was a cash investment into equities, approximately £13m is due to market fluctuations performance and the remaining £2m is due to the balance of cash drawn down and distributed by private equity managers. The Fund's European Property holdings were transferred to Schroder Investments in May 2014.

Adjusting Events:

Croydon Council, as the administering authority for the LGPS, collects and accounts for contributions from other Scheme employers. Contributions comprise: deductions from staff salaries, prescribed by the Scheme regulations; matching employer contributions, set out in the Actuarial Valuation certificate; and lump sum deficit contributions that are also set by the Actuary. The first two items are determined by payroll but the latter is fixed for a three-year period, commencing April 2014.

There are four employers within the Croydon Scheme who are not complying with the Scheme regulations in respect of these contributions.

Ruskin Private Hire, an admitted body, has gone into administration. An offsetting arrangement contained in their admission agreement has ensured that monies due, in so far as they can be estimated, have been collected.

Another admitted body, Cabrini, has voluntarily commenced a process of formal wind-down, disposing of assets to make a contribution towards a termination valuation.

A third admitted body, Fairfield Halls, has failed to pay over their deficit contribution in compliance with the regulations. This debt will be off-set against grant due from the Council.

St James the Great Primary School, an academy, is in arrears paying over their employer contribution. A legal process is in train to recover sums due to the Pension Fund.

Each of these individual cases has been closely monitored throughout the year and hence provide evidence of conditions that existed at the Scheme year end, and so adjust the amounts recognised in the financial statement.

25. FINANCIAL INSTRUMENTS

Below is the investment strategy agreed by Pension Committee in 2012/13.

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

25. FINANCIAL INSTRUMENTS (Continued)**Sensitivity Analysis**

A movement of 1% in the value of equities would cause a change in the asset value of the Fund of £3.56m. A 1% change in the value of bonds would have a £1.64m effect.

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. The Equitix Funds were reclassified from private equity to infrastructure during the period.

	Designated as fair value through profit and loss £000	Loans and Debtors £000	Financial assets and liabilities at amortised cost £000
Financial Assets			
Fixed interest securities	164,037	0	0
Equities	284,739	0	0
Pooled investments	107,866	0	0
Pooled property investments	65,028	0	0
Hedge Funds	29,567	0	0
Private equity	30,804	0	0
Infrastructure	26,314	0	0
Cash	0	37,309	0
Other investment balances	0	0	2,850
Debtors	0	1,717	0
Total Financial Assets	708,355	39,026	2,850
Financial Liabilities			
Other investment balances	0	0	(1,736)
Creditors	0	0	(6,608)
Total Financial Liabilities	0	0	(8,344)
Net Assets	708,355	39,026	(5,494)

Net Gains and Losses on Financial Instruments

31 March 2014
£000

Financial assets	
Fair value through profit and loss	28,300
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	28,300

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	708,355	708,355
Loans and Debtors	39,026	39,026
Financial assets at amortised cost	2,850	2,850
Total Financial Assets	750,231	750,231
Financial Liabilities		
Fair value through profit and loss	0	0
Financial liabilities at amortised cost	(8,344)	(8,344)
Total Financial Liabilities	(8,344)	(8,344)

25. FINANCIAL INSTRUMENTS (Continued)**Valuation of financial instruments carried at fair value**

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

Level One

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

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

Level Two

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

Level Three

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

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

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

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

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

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

Values at 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit and loss	556,642	65,028	86,685	708,355
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	0	0	0	0
Net financial assets	556,642	65,028	86,685	708,355

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

Market Risk

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

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

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

Other price risk

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

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

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

Other price risk - sensitivity analysis

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

Asset type	Potential market movements (+/-)
Global Equities	11.73%
Total bonds plus index linked	4.03%
Alternatives	3.83%
Property	8.06%

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

Asset type	Value £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Global Equities	392,605	11.73%	438,658	346,552
Total bonds plus index linked	164,037	4.03%	170,648	157,426
Alternatives	86,685	3.83%	90,005	83,365
Property	65,028	8.06%	70,269	59,787
Total Assets	708,355		769,580	647,130

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**Interest rate risk**

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2014 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 2014
	£000
Cash and cash equivalents	26,477
Cash Balances	10,832
Fixed interest securities	164,037
Total	<u>201,346</u>

Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	26,477	265	(265)
Cash Balances	10,832	108	(108)
Fixed interest securities	164,037	1,640	(1,640)
Total	<u>201,346</u>	<u>2,013</u>	<u>(2,013)</u>

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 2014.

Currency exposure - asset type	Asset Value as at 31 March 2014
	£000
Overseas quoted securities	246,201
Overseas quoted securities - pooled	107,866
Overseas un-quoted securities	30,804
Overseas property	11,041
Overseas bonds (quoted)	50,524
Total overseas assets	<u>446,436</u>

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's performance management provider (WM Company), the Council considers the likely volatility associated with foreign exchange rate movements to be 5.21% (as measured by one standard deviation).

A 5.21% 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.

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

A 5.21% 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 2014	Change in net assets available to pay benefits	
		+5.21%	-5.21%
	£000	£000	£000
Overseas quoted securities	246,201	259,028	233,374
Overseas quoted securities - pooled	107,866	113,486	102,246
Overseas un-quoted securities	30,804	32,409	29,199
Overseas property	11,041	11,616	10,466
Overseas bonds (quoted)	50,524	53,156	47,892
Total overseas assets	446,436	469,695	423,177

Credit risk

Credit risk is the risk that parties in whom the Fund invests may fail to pay amounts that are due to the Pension Fund. For example an entity in which the Pension Fund invests may fail. This risk is minimised by investing in specialist fund managers across different asset classes and geographical regions. Additionally there is a risk that an admitted body may be unable to meet its contributions obligations. Contribution receipts are monitored monthly and, if necessary, remedial action is taken.

Credit risk also 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 invests 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 six financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2014 was £30.829 million (£33.74 million at 31 March 2013). This was held with the following institutions:

Summary	Rating at 31 March 2014	Balances as at 31 March 2014 £000
Money Market Funds		
Goldman Sachs	AAA	5,940
Short Term Deposit Account		
Lloyds TSB	A	20,000
Current Account		
Royal Bank of Scotland		4,882
Total		<u>30,822</u>

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings including cash invested in money market funds. The Fund defines liquid assets as assets that can be converted to cash within three months. Non-liquid assets are those assets which will take longer than three months to convert into cash. All financial liabilities at 31 March 2014 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.



2014

Pensions Governance Compliance Strategy

Your Local Government
Pension Scheme Guide

Your Guide to the London Borough of Croydon Governance Compliance Strategy

As the Administering Authority we have prepared this guide to help you understand the Governance Compliance strategies that Croydon Council (as the Administering Authority) has in place

Governance Compliance Statement

The Regulations from the Department for Communities and Local Government (CLG) requires each LGPS (Local Government Pension Scheme) administering authority in England and Wales to prepare a Governance Compliance Statement this is to be maintained and published setting out their policy on Governance with members (including pensioners and deferred members), members' representatives, prospective members and Admitted & Scheduled Bodies participating in the Fund. The Funding Strategy Statement and the Statement of Investment Principles form a set of documents detailing how the Fund is administered.

Pension Committee

As an administering pension authority the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pensions Committee. Its terms of reference are to deal with all matters relating to the investment and the management/administration of the Council Pension Fund, each member is fully aware of their role and function on the Pension Committee.

The Pension Committee's structure consists of the following:

Pension Committee Member	Voting Member	Non-Voting Member
Councillor John Wentworth, Chairman	✓	
Councillor Simon Hall, Vice-Chairman	✓	
Councillor Maddie Henson	✓	
Councillor Yvette Hopley	✓	
Councillor Humayun Kabir	✓	
Councillor Andrew Pelling	✓	
Councillor Dudley Mead	✓	
Reserve Panel: Councillors: Carole Bonner, Jan Butt-inger, Robert Canning, Luke Clancy, and Gerry Ryan	✓	
Mr Isa Makumbi, Staff Representative		✓
Ms Gilli Driver, Pensioners Representative		✓
Mr Peter Howard, Pensioners Representative		✓
Mr Mike Brakes, Co-optee Representative		✓

In addition, the Pension Committee is supported by officers and external advisers, independent professional observers and scheme members. There are no members representing admitted bodies, although these are consulted on valuation, contribution matters, and informed of Committee discussions and decisions.

Training

All members of the Pension Committee receive training from external bodies and Fund Managers along with any other area to establish the expertise essential for decision-making. Training is recommended to all members of the Committee, a log is maintained to ensure members have attended, and reimbursed of all expenses incurred during training and any other Pension Committee process. The Pension Committee have adopted the Knowledge & Skills Framework.

External Advisers to the Pension Committee		Contact
Investment Adviser	AON Hewitts	Ian Bailey
Actuarial / Administrative Adviser	Hymans Robertson	Michael Ferguson

Terms of Reference

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

Frequency and Structure of Meetings

The Pension Committee meetings are held on at least a quarterly basis. The agenda and minutes from previous meetings are circulated to the Members of the Pension Committee within 5 days prior to the meeting. Committee members are invited to declare any financial or pecuniary interest related to matters on the agenda. The agenda and minutes of Pension Committee meetings are available on the Council's website following every meeting.

Voting

The Administering Authority is fully compliant with the Voting principle. Most decisions are reached by consensus, but voting rights remain with the Councillors, because of the Council's legal responsibility as Administering Authority.

Scope

In addition to reports from the fund managers and investment advisers, the Committee considers reports on matters such as the funding level, communications strategy and best practice standards, reflecting the flexibility and development of the Committee.

Publicising the Governance Compliance Statement

This document is included within the Pension Fund Annual Account. A version of this policy is made available on the website, circulated to the Admitted & Scheduled Bodies for comment and distribution.

Further Information

This document is available in large sight and Braille upon request.

If you need more information about the Scheme you should contact the following:

Pensions Section

11A, Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Tele: 020 8760 5768 x 62892

Email: pensions@croydon.gov.uk

Website: www.croydonpensionscheme.org



CROYDON
www.croydon.gov.uk

Statement of Investment Principles

1 Introduction

The elected members of Croydon Council, acting through the Pension Committee, have drawn up this Statement of Investment Principles to comply with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 , brought into force on 1st January 2010 by the Local Government Pension Scheme (Management and Investment of Funds), as they relate to the Pensions Act 1995 in its requirements of occupational pension schemes and the London Borough of Croydon Pension Fund (“the Fund”).

The Statement also reflects the Local Government Pension Scheme (Amendment) (No 2) Regulations (2005) to provide the statutory framework from which the administering authority is required to prepare a Governance Policy Statement (GPS). Accordingly, the GPS sets out the Fund’s governance arrangements, including representation and delegations. The Council has consulted suitably qualified persons and has obtained written advice from its investment consultant, AON Hewitt. Overall investment policy falls into two parts:

- The strategic management of the assets is the responsibility of the Pension Committee who delegates many of their functions to the officers and act on the advice of the investment consultant and the independent Fund adviser.

- The remaining elements of policy are part of the day-to-day management of the assets which are delegated to professional investment managers as described in Section 3.

1.2 Hutton Review and Changes to the Local Government Pension Scheme

Lord Hutton's Independent Public Service Pensions Commission: Final Report, which sets out the principles for reforms to Public Service Pensions, was released in March 2011. The Government has accepted the broad principles set out in the report as a basis for consultation.

On 1 April 2014 the Government's changes to the LGPS were implemented. The key changes are outlined below:

- All benefits accrued by members up to 2014 will be protected under the final salary/age 65 arrangements.
- The retirement age be increased and linked to the State Pension Age going forwards.
- The new scheme will be based on career average salary (CARE) instead of final salary. This means benefits accrue on the pay earned over the entire time a member is in the LGPS 2014.
- Lower Cost Option 50/50 – giving members the flexibility to pay 50% of their contributions to receive 50% of the benefits.
- The accrual rate increases from 1/60th to 1/49th.

2 Investment Objectives, Strategy and Risk

2.1 Investment Objectives

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

- Following the last review of investment strategy during the year 2012/13, the overall investment policy was set to achieve a return on investments consistent with the Actuary's long-term strategy.
- Investment policy is guided by an overall objective of achieving, over the long term, a return on investments to meet all the Fund liabilities,

after taking into account employer and employee contributions, with the aim of minimising the level of risk and the impact on the local taxpayer, which is consistent with the long-term assumptions used by the Actuary in determining the funding of the Fund.

- To ensure the fund remains liquid over the short, medium and long term so that cash is available to meet all liabilities as and when they fall due without need for forced or untimely disinvestments.
- To achieve a return on investments in line with the mandates (see paragraph 3.1).
- Promote a Socially Responsible Investment Strategy consistent with maximising the return on the Fund.
- Comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2.2 Investment Strategy

During the year 2012/2013 the Pension Committee discussed and agreed that the investment allocation strategy should be revised as shown in the table below. The allocation to Bonds was decreased as a result of the poor outlook for this asset class. The property allocation was increased in order to provide more diversified returns from equities. An allocation to infrastructure has also been included.

Assets	Benchmark	Target 2012/13 (%)
Global Equities	MSCI AC World index FTSE World	50 +/- 3
Bonds	10% 3 month Libor plus 2.5% / 8% Merrill Lynch Sterling non-gilts, all stocks index / 12% Merrill Lynch Sterling Broad Market index	25 +/- 3
Property	IPD All Properties index	10 +/- 3
Funds of Hedge Funds	3 month LIBOR plus 10%	4
Private Equity	MSCI AC World index Absolute Return of 12%	5
Infrastructure	RPI*	5
Cash	LIBID	1
Total		100

*The Infrastructure benchmark will be dependent upon the chosen portfolio and manager.

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

In order for the Fund's exposure to pooled vehicles and unit trust schemes to be brought more in line with the new target allocation, the Pension Committee, having taken appropriate advice, has decided to continue to adopt the increased limits for units of shares of the investments, subject to the trusts of unit trust schemes managed by any one body. This is for an unlimited period of time, is consistent with the Fund's Investment Strategy and the increase complies with the *Local Government Scheme (Management and Investment of Funds) (Amendment) Regulations 2003*, superseded by the *Local Government Scheme (Management and Investment of Funds) Regulations 2009*, and the *Local Government Pension Scheme (Amendment) (No 2) Regulations 2005* and therefore the Pension Committee formally agreed the following: -

- All contributions to any single partnership to a maximum of 5% (of the total fund value)
- All contributions to partnerships to a maximum of 15% (of the total fund value)
- All investments in units or other shares of the investment, subject to the trusts of unit trust schemes managed by one body, to a maximum of 35% (of the total fund value)
- All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body to a maximum of 35% (of the total fund value)

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

The Investment Strategy was reviewed ahead of the 2013 Triennial Valuation. This review was carried out by the officers under the guidance of the professional investment advisor, Aon Hewitt. Refer to section 3.1 detailing the exposure to any one body.

2.3 Risk

There are various risks to which any pension scheme is exposed. The Pension Committee has considered a number of risks including: -

- The risk arising through a mismatch between the Fund's assets and its liabilities.
- The risk of deterioration in the Fund's ongoing funding level.
- The risk of a shortfall of assets, relative to the liabilities as determined if the Fund were to be wound up.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return required to meet accrued and future liabilities as quantified by the Fund's Actuary.

- The risk of the active investment managers underperforming their benchmarks.
- The risk of insufficient liquidity from the Fund's assets.
- The failure to spread investment risk ("risk of lack of diversification").
- The risk of fraud, poor advice or acts of negligence ("operational risk").

Various arrangements, approved by the Pension Committee, have been put in place to minimise and manage some of the specific risks set out above, following appropriate advice from the Fund's Investment Consultants:-

- Asset allocation strategy and fund benchmark – The revised asset allocation strategy, detailed in section 2.2, is designed to spread the risk through investment in a diversified range of asset classes, including alternatives and geographic regions. The overall Fund benchmark reflects this asset allocation and provides a basis with which to measure the Fund against its objectives.
- Panel of fund managers – A panel of active fund managers have been procured to deliver the strategy, including reserve managers for each asset class. The panel approach incorporates flexibility and the ability to switch between fund managers should there be consistent underperformance or a significant event that would warrant termination of a funded manager. Refer to section 3.4 below.

Suitable investments – The Pension Committee acknowledges the statutory duty to ensure funds are suitably invested, within the limits under section 2.2 above. Investments have been made in a range of quoted securities, pooled investment vehicles, hedge fund of funds, unit trusts, unquoted and private equity

investments, derivative instruments, cash, bank deposits and short term money market funds. The investment strategy makes due allowance of the need for liquidity of the Fund's assets.

3 Day to Day Management of the Assets

3.1 Main Assets

The Fund's asset allocation as at 31st March 2013 was as follows: -

Investment Manager	Investment Mandate / Fund	% of Fund
<u>Global Equities</u>		
Fidelity	Select Global Active (segregated plus pooled emerging markets fund)	16.8
Franklin Templeton	Global equities (segregated)	12.6
Global Thematic Partners	Global thematic equities (segregated)	11.7
Legal and General Asset Management	DB World Equity Index (pooled)	12.1
<u>Global Bonds</u>		
Standard Life Investments	Corporate Bond Fund (pooled)	9.0
	Absolute Return Global Bond Fund (pooled)	9.1
Wellington	WMP Sterling Core Bond Plus Fund (pooled)	11.2
<u>Hedge Fund of Funds</u>		
BlueCrest	AllBlue Fund	1.9
<u>Property</u>		
Schroder Investment Management	UK Property	3.9
<u>Private Equity</u>		
Pantheon Ventures Limited	Pantheon Europe, US and Asia Funds	2.3
Equitix	Private equity infrastructure	2.8
Knightsbridge Advisors	US venture capital	0.8
<u>Internal Cash</u>		
Total		100

Source: WM Performance Services

As at 31st March 2014 the majority of assets were under active management with the exception of the Legal and General World Equity Index fund which tracks the FTSE World index. Assets are distributed with the aim of meeting the target allocation of the Fund as set out in paragraph 2.2 having regard to maximising investment returns and the day-to-day liquidity requirements of the Fund.

3.2 Asset Allocation Guidelines and Investment Performance Benchmarks

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

Global Equities

Manager	Benchmark	Target	Tracking Error
Fidelity	MSCI AC World index	2% outperformance per annum (net of fees) over 3 years	1%-3%
Franklin Templeton	MSCI World index	2% outperformance per annum (gross of fees) over 5 years	4%-8%
GLOBAL THEMATIC PARTNERS Advisors	MSCI World index	2%-4% outperformance per annum over 3 years	4%-8%
Legal and General Asset Management	FTSE World index	Track the FTSE World index	+/- 0.25%

Global Bonds

Manager	Benchmark	Target	Tracking Error
Standard Life – Corporate Bond	Merrill Lynch non-gilt sterling all stocks index	0.8% outperformance per annum (gross of fees).	0.5%-2%
Standard Life – Absolute Return	3 Month LIBOR	2.5% outperformance (gross of fees) on rolling 3 years	0.5%-2%

Wellington	Merrill Lynch Sterling Broad Market index	1%-1.5% outperformance per annum.	0%-3%
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Absolute Return – Hedge Fund of Funds

Manager	Benchmark	Target	Tracking Error
BlueCrest	3 month Libor plus 10%	Absolute return of 3 month Libor plus 10%-15% (net of fees).	6%-8%

Private Equity

Manager	Benchmark	Target	Tracking Error
Pantheon	FTSE All-Share index	Absolute return of 3% - 5% outperformance over the long term.	Not applicable
Equitix	Absolute return of 12% over the life of the fund.	Absolute return of 12% over the life of the fund.	Not applicable
Knightsbridge	MSCI AC World index	Absolute return to outperform MSCI AC World index.	Not applicable

Property

Manager	Benchmark	Target	Tracking Error
Schroder	Investment Property Databank (IPD) All Properties Index	Absolute return to outperform the IPD All Properties index	Not applicable

3.3 Fees

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

3.4 Monitoring the Investment Managers

Performance of the investment managers is measured by the World Markets (WM) Company. The Council's officers meet the investment managers regularly to review their actions together with the reasons for investment performance. A set of 'trigger events' have been agreed by the Pension Committee and should these occur, they will be investigated by officers and reported to the Committee. A panel of reserve managers have been set up, as agreed with the Committee and should investments with the current managers be deemed inappropriate due to a trigger event or consistent underperformance, the Committee will consider whether to terminate the contract and switch to an alternative reserve manager. The Pension Committee meets on a quarterly basis to review and monitor performance with the active investment managers attending when required. AON Hewitt Investment Consulting and the Fund's independent investment advisor, are retained to assist the Fund in fulfilling its responsibility for monitoring the investment managers.

The Pension Committee, through the Council's officers, also receives regular updates from the WM Local Authority Universe, which represents the aggregate of all participating Local Authorities pension schemes on investments and performance. The Pension Committee uses this as a broad comparison but acknowledge that the universe of local authorities comprises pension funds with a range of different characteristics in terms of their liability profiles, risk budgets, investment objectives and investment strategies. The Fund's performance is therefore expected to be different from the average local authority pension fund.

3.5 Realisation of Investments

In general, the Fund's investment managers have discretion as to the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's investment managers have responsibility for generating cash for investment in new assets and shortfalls in revenue expenditure of the Fund as may be required for time to time. The Pension Committee decides, with

the advice from its investment advisers, on how investments should be realised for cash.

3.6 Pension Committee Arrangements

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

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

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

3.7 Additional Voluntary Contributions

Any members' additional voluntary contributions (AVC's) are held in various separate investments administered by Prudential Assurance Company Limited. The benefits arising from these contributions are additional to, and do not form part of, the benefits due under the Local Government Pension Scheme. They are therefore not required to be included in the Pension Fund Accounts in accordance with the Statement of Recommended Practice - Financial Reports of Pension Schemes (issued in 2002). The Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVC's.

4. Custody

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

5 Socially Responsible Investment and Corporate Governance

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

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

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

LAPFF also uses its influence to engage with and, where necessary, challenge companies on corporate governance matters. It is the view of officers and the advisers that this is an extremely cost effective way of fulfilling part of our commitment to "activism" which is one of the ten principles outlined in the "Statement of Compliance – Myners' Investment Principles" which are fully described in a separate section in the Annual Report. Allied to shareholder activism is the need to ensure that the Fund has a comprehensive voting policy which reflects the socially responsible investment issues supported by the

Pension Committee. To this end the Pension Committee uses Pension Investment Research Consultants Limited (PIRC) to vote on the Fund's behalf in respect of the FTSE 350 holdings according to PIRC voting guidelines. It is the view of officers that membership of PIRC has resulted in the Croydon Council Pension Fund's voting policy being probably one of the most comprehensive of all the Local Authority Pension Funds in the country. The Council's Pension Fund has determined that dialogue (through LAPFF) and a proactive engagement (through PIRC) is the most effective way of influencing companies in relation to social, environmental and business policies whilst at the same time achieving financial returns compatible with the Fund's longer term financial objectives.

From April 2010 PIRC assumed the responsibility for voting on the Fund's global equity holdings.

6 Expected Return on Investments

When the Fund's investment strategy was last reviewed, the Pension Committee discussed and agreed that in order to have a more consistent level of return, aligned with the Actuary's recovery plan, the investment allocation strategy should be revised as shown in the table in paragraph 2.2 of this statement. This current strategy was agreed during the first quarter of 2013. The asset allocation of the Fund will be kept under constant review and may be changed from time to time. Changes will be reflected in an updated version of this statement.

7 Principles for Investment Decision-Making

- *The extent to which the Pension Fund complies with the Communities and Local Government guidance “Investment Decision making and disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles” has been included in the Annual Report under a section titled “Statement of Compliance – Myners’ Investment Principles”. Within these principles the term “Trustee” is used from time to time. When considering advice and determining investment policy, the Pension Committee are effectively acting as Trustees. As such, they have responsibilities additional to those carried out as elected members of the Council. Their duties as “Trustees” are to manage the Fund in accordance with the Local Government Pension regulations and to do so prudently and impartially.*

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

8 Stock Lending

The Pension Fund does not engage in stock lending activities.

9 Compliance with this Statement

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

10 Review of this Statement

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

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

Statement of Compliance – Myners’ Investment Principles

Principle 1: Effective Decision-Making					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			<p><i>Administrating authorities should ensure that:</i></p> <p>Decisions are taken by persons or organisations with the skills, <i>knowledge, advice</i> and resources necessary to make them <i>effectively and monitor their implementation. Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</i></p>	<p>All investment decisions are taken either by the Pension Committee, which is responsible for the ‘Management of the Council’s Pension Fund’, or by the Executive Director Resources and Customer Services under his delegated powers. In addition to the Executive Director of Resources and Customer Services, the Pension Committee is advised by experienced Council officers and external advisers (one being appointed by AON Hewitt Consulting Global Investment Practice and an independent advisor, Valentine Furniss). All voting members of the Pension Committee are experienced Councillors with a wide range of expertise including investment and accountancy. In addition to the Councillors, the Pension Committee includes representatives of the staff and pensioners. Collectively, the Pension Committee has all the skills necessary to properly carry out their investment responsibilities. Councillors, officers and advisers are given training opportunities, to ensure that their expertise remains up to date. Several members of the Pension Committee have attended specific training seminars.</p>	<p><i>The CIPFA Knowledge and Skills Framework will be used to develop a training plan. Training will continue to be offered to all members of the Pension Committee.</i></p>

Principle 2: Clear Objectives																							
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future																		
Fully	Part	Not																					
✓			<i>An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</i>	<p>See section 2 of the Statement of Investment Principles (SIP).</p> <p>The Fund's objectives are reviewed annually, during the review of the Statement of Investment Principles.</p>																			
✓																							
Principle 3: Risk and Liabilities																							
✓			<i>In setting and reviewing their investment strategy, administering authorities should take into account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</i>	<p>At both the Pension Committee and the Advisers/ Officers level, strategic asset allocation is discussed, either in the context of performance monitoring or arising from a specific Officer report. The full range of investment opportunities is considered.</p> <p>At the time of the last investment strategy review, the Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary's 24 year recovery plan, the investment allocation strategy should be revised as below:</p> <p>-</p> <table border="0"> <tr> <td>Asset Category</td> <td style="text-align: right;">%</td> </tr> <tr> <td>UK & Overseas Listed Equities</td> <td style="text-align: right;">50 +/- 3</td> </tr> <tr> <td>Bonds</td> <td style="text-align: right;">25 +/- 3</td> </tr> <tr> <td>Property</td> <td style="text-align: right;">10 +/- 3</td> </tr> <tr> <td>Fund of Hedge Funds</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Private Equity</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Infrastructure</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">100</td> </tr> </table> <p>Based on advice from the Pension Fund's Investment Consultants, a panel of investment managers have been funded to implement this strategy.</p>	Asset Category	%	UK & Overseas Listed Equities	50 +/- 3	Bonds	25 +/- 3	Property	10 +/- 3	Fund of Hedge Funds	4	Private Equity	5	Infrastructure	5	Cash	1	Total	100	Continue to consider and review asset allocation policy.
Asset Category	%																						
UK & Overseas Listed Equities	50 +/- 3																						
Bonds	25 +/- 3																						
Property	10 +/- 3																						
Fund of Hedge Funds	4																						
Private Equity	5																						
Infrastructure	5																						
Cash	1																						
Total	100																						

Principle 4: Performance Assessment					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓	✓		<p><i>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</i></p> <p><i>Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</i></p>	<p>The Fund's managers provide full reports on performance on a quarterly basis. The investment managers' performance and the Fund's overall performance are independently measured quarterly and annually by the World Markets (WM) Company and reported on a quarterly basis to the Pension Committee. The Fund's Investment Consultants, AON Hewitt, also monitor the investment managers and report their research and ratings to the Committee on a quarterly basis. Officers meet with managers on a regular basis and each manager has been scheduled to attend Committee meetings on at least an annual basis.</p> <p>The Fund has procured the services of AMACES to undertake a full review of the custodian contact and to monitor the custodian's performance.</p> <p>A revised framework for reporting to the Committee has been put in place by Officers, reporting on the Fund's panel of investment managers' performance and any significant events during the quarter.</p>	<p>Reporting on the Council's own effectiveness as a decision making body will be a focus.</p>
Principle 5: Responsible Ownership					
✓			<p><i>Administrating authorities should:</i></p> <p><i>Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</i></p>	<p>The Pension Fund's investment managers have adopted the Institutional Shareholders' Committee Statement of Principles.</p>	<p>Establish a global contract with PIRC to consistently vote across the Pension Fund's holdings with each investment manager.</p>
✓			<p><i>Include a statement of their policy on responsible ownership on the statement of investment principles.</i></p>	<p>Sections 5 and 7 and the introduction of the Statement of Investment Principles detail the Fund's policy on responsible ownership, including shareholder activism and the decision making duties of the Pension Committee and the investment managers.</p>	
✓			<p><i>Report periodically to scheme members on the discharge of such responsibilities.</i></p>	<p>Officers report quarterly to the Pensions Committee on the voting by PIRC and the investment managers carried out on the Fund's equity holdings. This report is available on the Council's website for members to view.</p>	
✓				<p>The Governance Policy Statement is also available to the public, establishing the roles of the Pension Committee and decision makers</p>	

✓				over the Pension Fund.	
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Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
Principle 6: Transparency and Reporting					
✓			<p><i>Administrating authorities should:</i></p> <p><i>Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.</i></p> <p><i>Provide regular communication to scheme members in the form they consider most appropriate.</i></p>	<p>The Council communicates with stakeholders through the publication of key documents on the Council's website, including the Governance Policy Statement, the Communication Statement and the Annual Report.</p> <p>Additionally, there is an annual open day; quarterly employee forum; surgeries; drop in sessions and other ad hoc events.</p> <p>A regular newsletter is also sent scheme members.</p>	<p>The Council will continue to communicate with stakeholders and members.</p>

Date: August 2014



2014

Pensions Communication Strategy

Your Local Government
Pension Scheme Guide

Your Guide to the London Borough of Croydon Communication Strategy

As the Administering Authority we have prepared this guide to help you understand the various Communication strategies that Croydon Council (as the Administering Authority) offers to all of its stakeholders

Statement of Communications Policy

The Regulations require each administering authority in England and Wales to prepare, maintain and publish a statement setting out its policy on communicating with the following people and organisations:

- ▶ Contributing Scheme Members
- ▶ Prospective Scheme Members
- ▶ Pensioner Scheme Members and deceased dependants
- ▶ Deferred Scheme Members
- ▶ Admitted & Scheduled Scheme Employers participating in the Fund
- ▶ Trustees
- ▶ Other Bodies

This document sets out the mechanisms which are used to meet our communication needs. We aim to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one medium of communication.

▶ Contributing Scheme Members

Member Self Service

All members can request their own password to view their record. Amendments can be made to update certain details and calculations can be performed.

Annual Benefit Statement

Members can access their individual information via the Member Self Service facility at their convenience. The Statement details information held on the Pension Section database and provides estimates of the current and future value of the members' benefits.

Pensions Newsletter

A newsletter is produced once a year and is sent to Members' by email, it is also available on the Council website. The publication informs members of LGPS regulation changes and other related topics. The publication is also used to remind members of keeping the Pensions Section up-to-date with their details. Croydon Council have formed a collaborative working group with a number of other London boroughs through a Framework Agreement. Communications and reducing cost are a key objective in our service to our membership.

Pension's Updates

When there are scheme changes there will be more communication to Members, these will be sent via work email addresses, on the intranet and available on the website.

Pension's Website

The Pension's Website has been developed, which displays: all Forms in PDF format to download, Croydon Council's Policies and Regulations on the Local Government Pension Scheme and ad-hoc information for Members. The Website is a key method of communication.

Pension's Open Day

Croydon Council holds an annual Open Day inviting all staff members to attend either a morning or afternoon session, where members have the opportunity to find out the most up-to-date information and speak 1-2-1 to a pensions administrator. Past speakers have been from the Communities & Local Government, Local Government Employers' Organisation and the Council's Fund Managers and Actuaries.

Pension Roadshows, Seminars and Surgeries

This is a valuable aid for scheme members, roadshows are used to target specific topics with support being enlisted from our advisers and fund managers. The Pensions Section have held roadshows in various locations within the Borough, enabling all members of the LGPS to have access to information. Surgeries are also held across the borough offering individual 1-2-1 meetings. Pre-Retirement workshops have been run and these have been successfully received.

Scheme Guides

Scheme guides are provided to all new prospective scheme members on appointment and can be viewed on the internet by all staff.

Literature

All up-to-date information on the scheme is held on the website in our 'Your Local Government Pension Scheme Guide'. All our available forms are held on the website in pdf and word format. There is also information on various ways of topping up benefits, with a direct link to our AVC provider - Prudential.

Pensions Helpline

Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

► Prospective Scheme Members

Initial Contact

All permanent new members of staff are automatically enrolled to the scheme. Each new member is sent a welcome letter statutory notice confirming membership of the LGPS along with our LGPS Scheme Guide, and contact information.

Pensions Helpline

Prospective Scheme Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

► Pensioner Scheme Members and deceased dependants

Pensioners Payslip

All pensioners receive a payslip in March, April, May along with their P60 at the end of the year. A payslip will also be received where the amount of net pension changes by more than £20.

Pensioners Newsletter

All Pensioners receive an annual newsletter which is sent out in April and sent to their home address. This publication includes the pensions increase, and other relevant information.

Life Certificates—Pensioners Living Abroad

The fund undertakes an annual exercise, conducted through correspondence, in order to establish the continued existence of pensioners living abroad.

Pensions Helpline

Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

▶ Deferred Scheme Members

Annual Benefit Statement

Once a year all members benefits are sent out in an Annual Benefit Statement direct to home addresses. Summarising the basic information held on the Pension Section database.

Update of Information

If there are any changes to the LGPS regulations which are relevant to Deferred Scheme Members correspondence will be sent directly to their latest home address held on the pensions database.

Pensions Helpline

Members can call the Pensions Section on one central helpline number, which is consistently advertised on all our literature. The number is 0208 760 5768 x62892.

▶ Admitted & Scheduled Scheme Employers participating in the Fund

All Employer Forums

Meetings are held quarterly for Employers; specifically this has been used as a mechanism for communicating major strategic issues, significant LGPS legislation changes, tri-annual valuation matters and the Funding Strategy Statement.

Employers' are kept informed throughout the process of the tri-annual valuation which is carried out by the Councils Actuaries. The Employers' comments are always encouraged and welcomed and where appropriate taken into consideration.

Employers' Guide

An Employers' guide has been produced to assist the smaller employers in discharging their pension administration responsibilities.

▶ Trustees

There is a governing body of Trustees called The Pension Committee. The Committee meet quarterly to deal with all matters relating to the investment and the management/administration of the Council Pension Fund. In addition to reports from the fund managers and investment advisers, the Committee considers reports on matters such as the funding level, communications strategy and best practice standards.

Training is provided from the Fund's Officers, advisors and external experts with regard to investment and administration matters. A log of all training is maintained in the Members Training Report.

▶ Other Bodies

AVC Provider

AVC's (Additional Voluntary Contributions) are a way to top up your tax free lump sum and pension from your Local Government Pension Scheme. Croydon Council's AVC provider is Prudential. Contact details are available from Croydon Council's website.

Trade Unions/Employer Representatives

We will work with the relevant Trade Unions and Employer Representatives to ensure the Scheme is understood by all interested parties. All efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

London Pensions Officer's Group

Pensions Officers from other London Boroughs meet regularly in order to share information and ensure uniform interpretation of Local Government Pension Scheme, and other prevailing regulations.

National Information Forum

All administering Authorities are invited to attend, these meetings provide an opportunity to discuss issues of common interest and share best practice. The Office Government Pensions Committee are represented at each meeting.

National Association of Pension Funds (NAPF)

All administering Authorities who are members of the NAPF are invited to attend, these meetings provide an opportunity to discuss issues of common interest and share best practice.

Seminars

Representatives of the Council regularly participate at seminars and conferences.

The table below shows the availability of Fund publications along with their publication frequency and review periods.

Communication Material	Paper based	Electronic form	Internet for all to view	When published	When reviewed
Pension Scheme Guide	✓	✓	✓	Constantly available	Annually
Topping up Benefits	✓	✓	✓	Constantly available	Annually
Annual Benefits Statements	✓	✗	✗	Annually	Annually
Statutory Notifications	✓	✗	✓	On joining & ABS	Annually
Members Self Service	✗	✓	✓	On joining	Continually
Pension Updates	✓	✓	✓	As required	After each publication
Annual Pension Fund Report	✓	✓	✓	Annually	Annually
Newsletter to Active Member	✓	✓	✓	Annually (if not more)	After each publication
Early Leaver information	✓	✓	✓	Sent with Deferred benefits statement	Annually
Retirement information	✓	✓	✓	Sent with retirement details	Annually
Pension Increase incorporated in the Pensioners Newsletter	✓	✓	✓	Annually	Annually
Actuarial valuation report	✓	✓	✓	Tri-annually	Tri-annually
Pension Fund Committee	✓	✓	✓	Quarterly	Quarterly
Communication Policy	✓	✓	✓	Upon request	Quarterly
Governance Compliance Statement	✓	✓	✓	Upon request	Quarterly

While these publications are reviewed within our timescales, these are also reviewed in conjunction with LGPS and other related legislation changes.

Further Information

This document is available in large sight and Braille upon request.

If you need more information about the Scheme you should contact the following:

Pensions Section

11A, Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Tele: 020 8760 5768 x 62892

Email: pensions@croydon.gov.uk

Website: www.croydonpensionscheme.org



CROYDON
www.croydon.gov.uk



2014

Pensions Training Log

Your Local Government
Pension Scheme Guide

Your Guide to the London Borough of Croydon Training Log

As the Administering Authority we have prepared this guide to log the training of the Pension Committee Members for the year that Croydon Council (as the Administering Authority) has taken place in April 2013/Mar 2014

Pension Committee Members Training Log

The Pensions Committee's training strategy takes account of the requirements of the Pensions Act 2004. The Act requires that trustees of occupational pension schemes should have knowledge and understanding of the law relating to pensions and role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits. The training needs of Pension Committee members are assessed on an individual basis and take account of members' existing expertise, and interests in specific areas. Within this flexible framework the following structure is operated. New members receive a comprehensive Pensions Committee Handbook, a half-day induction session before attending their first meeting, attend a three day LGE Fundamentals course and a Hymans/CIPFA Introduction to the LGPS.

In each subsequent year of membership they are expected to undertake training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. A self assessment training needs questionnaire has been developed to help members to focus on the most important areas for their training. A detailed log of all training undertaken and planned by Committee members is maintained and is available for inspection on request. Also during 2012/13 two separate training sessions were given to the Committee by the Pension Funds Investment Advisors.

The Pension Committee receives training and development as required and is commissioned from a variety of sources such as:

- ▶ External courses
- ▶ Training courses delivered by investment consultants
- ▶ Training courses sponsored by the Investment Managers
- ▶ Training included as part of the service received from the performance measurement provider and Actuary
- ▶ National Seminars and conferences

A training log will be maintained for each member of the Panel to record the actual training undertaken during the year. The log will be kept by the Head of Pensions & Treasury and will include details of all relevant training courses, seminars and events attended by each member, based on information available to the Head of Pensions & Treasury from arranging training events or booking attendance.

Panel members will be responsible for notifying the Head of Pensions & Treasury of other training activities on Pension Fund matters. Training logs will be circulated to members at the end of the financial year to confirm accuracy and to complete where necessary the evaluation section. The training logs will then be published as part of the training plan for the following year to provide evidence of the Committee's commitment to training.

The training log will include an assessment of whether each training event has fulfilled the need it was intended to meet.

Pension Committee 13/14 Training Log:

Name	Job	Volting	Pension Committee Visit Knightsbridge 17 April 2013	Introduction to the LGPS (CIPFA) 14 June 12	Pension Committee Visit Sarasin 27 June 2013	LG Investment Summit Sept 2013	LG Fundamentals Course (Oct, Nov, Dec 13)	Hyman Robertson Tri Valuation Training Part I at TPC 3 Sept 13	Pension Committee Visit Equitix & Standard Life Oct 13	Pension Committee Visit Schroders 28 Jan 14	Pension Committee Visit Franklin Templeton 25 Feb 14	Pension Committee Visit Pantheon 27 March 14	Hyman Robertson Tri Valuation Training Part II at TPC 26 Nov 13
Councillor Dudley Mead	Chair	✓	✓		✓	✓		✓	✓	✓	✓	✓	✓
Councillor Jan Buttinger	Vice-Chair	✓			✓		★	✓	✓	✓	✓	✓	✓
Councillor Simon Hall	Member	✓						✓	✓				
Councillor Maggie Mansell	Member	✓					★	✓					✓
Councillor Steve O'Connell	Member	✓					notified						
Councillor Donald Speakman	Member	✓					★	✓					✓
Councillor John Wentworth	Member	✓					★	✓					✓
Councillor Eddy Arram	Reserve Members	✓						✓					✓
Councillor Graham Bass	Reserve Members	✓						✓					✓
Councillor Carole Bonner	Reserve Members	✓						✓					✓
Councillor Matthew Kyeremeh	Reserve Members	✓											
Councillor Ian Parker	Reserve Members	✓											
Councillor Raj Rajendran	Reserve Members	✓											
Councillor Sue Winborn	Reserve Members	✓											
Ms Gilli Driver	Pensioner Representative			✓			★	✓					✓
Mr Peter Howard	Pensioner Representative			✓				✓					✓
Mr Mike Brakes	Co-opted Member			✓			★	✓				✓	✓
Mr Isa Makumbi	Staff Side Representative						★	✓					✓

★ previously attended

Further Information

This document is available in large sight and Braille upon request.

If you need more information about the Scheme you should contact the following:

Pensions Section

11A, Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA

Tele: 020 8760 5768 x 62892

Email: pensions@croydon.gov.uk

Website: www.croydonpensionscheme.org



CROYDON
www.croydon.gov.uk

The Audit Findings Report for the London Borough of Croydon Pension Fund

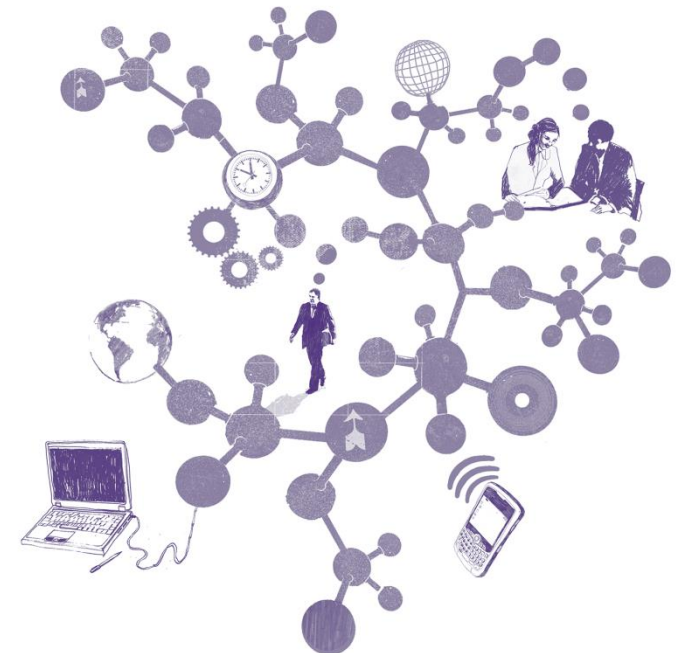
Year ended 31 March 2014

August 2014

Sue Exton
Engagement Lead
T 0207 728 3191
E sue.m.exton@uk.gt.com

Dominic Bradley
Manager
T 01293 554148
E dominic.g.bradley@uk.gt.com

Thomas Ball
Assistant Manager
T 0207 728 3009
E thomas.ball@uk.gt.com



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of the London Borough of Croydon Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 25 June 2014. Our audit is substantially complete although we are finalising our procedures in the following areas:

- testing of new member opt-outs
- sample testing of related party transactions
- review of the year-end reconciliation of investment valuations
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of the pension fund annual report

We received draft financial statements at the start of our two week audit on 14 July 2014, in accordance with the agreed timetable. This version already contained three changes affecting the net assets statement and fund account from the approved 30 June 2014 set of accounts. Not all the working papers were ready at the start of the audit. A trial balance was not provided until 21 July 2014. This was

due to the finance team identifying several further omissions from the draft financial statements after the audit had started. The changes were due to valuations of private equity and hedge fund investments not being updated from their 31 December 2013 values and non-reversal of prior year contribution accruals. These changes resulted in us having to undertake additional audit work in the second week of the audit.

Other working papers were subsequently provided piecemeal throughout the audit and in some instances, not until we had finished on site. When received, working papers were generally of a good standard.

Key issues arising from our audit

Financial statements opinion

The draft financial statements recorded net assets of £741,539k; the audited financial statements show net assets of £741,886k. We identified two minor adjustments totalling £2k affecting the Fund's reported financial position. The adjustments identified by the finance team effected net assets by £345k and are listed separately in section two of this report

Our audit procedures also identified a number of adjustments to improve the presentation of the financial statements, the most important of which are recorded in section two of this report.

We recognise the impact of changes made in the finance team. We have agreed actions for improvement with management as detailed in Appendix A.

We anticipate providing an unqualified opinion on the Fund's financial statements (Appendix B) and the Pension Fund Annual Report (Appendix C).

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. We look forward to working with staff to help improve their closedown and timeline to include a full quality review to try to achieve a smoother audit in 2014/15.

Grant Thornton UK LLP

August 2014

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the General Purposes and Audit Committee on 25 June 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 25 June 2014.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our draft audit opinion on the pension fund financial statements is set out in Appendix B.

Whilst we have not yet received a copy of the Annual Report, subject to our review, we anticipate providing an unqualified opinion on the Pension Fund Annual Report. Our draft audit opinion on the pension fund annual report is set out in Appendix C.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for London Borough of Croydon Pension Fund since:</p> <ul style="list-style-type: none"> • There is no external pressure to hit a year end financial performance target for the Pension Fund. • There is a strong governance environment which demonstrates that controls exist to prevent fraud. • There is no history of fraud in revenue recognition. • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension fund, the custodian and its fund managers provide a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	<ul style="list-style-type: none"> • Investments not valid • Alternative investments not valid • Investments activity not valid • Fair value measurements of securities quoted using prices (unadjusted) in active markets for identical securities not correct • Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct • Fair value measurements priced using inputs not based on observable market data (using models or similar techniques) not correct 	<ul style="list-style-type: none"> • We reviewed the reconciliation between information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for any variances. • We selected a sample of the individual investments held by the fund at the year end and then tested the valuation of the sample by agreeing prices for quoted investments to third party sources where published and for unquoted and direct property investments, by critically assessing the assumptions used in the valuation. • The existence of investments were confirmed directly with independent custodians or by agreement to relevant documentation. • We obtained direct confirmation of income receivable on Investments from fund managers. • We reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. • We tested a sample of purchases and sales during the year back to detailed information provided by the fund managers. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any significant issues in relation to the risk identified that we need to report to you.</p>
Benefit Payments and payments to leavers	<ul style="list-style-type: none"> • Benefits improperly computed/ liability understated 	<ul style="list-style-type: none"> • We confirmed the existence of controls operated by the pension fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. With a view to reducing the level of substantive testing required, we did not consider it necessary to test the key controls identified as sufficient evidence was obtained from other testing. • We selected a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and tested them by reference to member files. • We rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends were satisfactorily explained. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any significant issues in relation to the risk identified that we need to report to you.</p>




Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	<ul style="list-style-type: none"> Recorded contributions not correct 	<ul style="list-style-type: none"> We confirmed the existence of controls operated by the pension fund to ensure that it identifies and receives all expected contributions from member bodies. We substantively tested contributions deductions. We also reviewed contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends were satisfactorily explained. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any significant issues in relation to the risk identified that we need to report to you.</p>
Membership data	<ul style="list-style-type: none"> Member data not correct 	<ul style="list-style-type: none"> We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. 	<p>Pending resolution of the outstanding procedures set out on page 4, our audit work has not identified any significant issues in relation to the risk identified that we need to report to you.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Contribution Income:</p> <ul style="list-style-type: none"> Normal contributions are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate. Pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. <p>Investment Income:</p> <ul style="list-style-type: none"> Interest income is recognised in the fund account as it accrues. Dividend income is recognised by your fund managers on the date the shares are quoted ex-dividend. Distributions from pooled funds are recognised by your fund managers at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a financial asset. Movement in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. 	<ul style="list-style-type: none"> We have reviewed the revenue recognition policies stated in Note 3 of the Pension Fund accounts and can confirm that these are consistent with prior years. The revenue recognition policies are appropriate under the CIPFA 2013/14 Code of Practice on Local Authority Accounting. The revenue recognition policies are adequately disclosed. No evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement 	 <p>Accounting policy appropriate and disclosures sufficient</p>
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> Pension fund actuarial valuation Valuation of private equity, property, hedge fund and infrastructure investments 	<ul style="list-style-type: none"> Judgements and estimates are appropriate under the CIPFA 2013/14 Code of Practice accounting framework and are adequately disclosed in the accounting policies. No evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement. 	 <p>Accounting policy appropriate and disclosures sufficient</p>
Other accounting policies	<ul style="list-style-type: none"> The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting. 	<ul style="list-style-type: none"> We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make. 	 <p>Accounting policy appropriate and disclosures sufficient</p>

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Detail	Fund Account £'000	Net Assets Statement £'000
Employee contributions: London Borough of Croydon	(943)	
Employee contributions: Scheduled bodies	717	
Employee contributions: Admitted bodies	(3)	
Employer contributions: London Borough of Croydon	(2,693)	
Employer contributions: Scheduled bodies	2,986	
Employer contributions: Admitted bodies	3	
Early retirement costs recovered	46	
Benefits – pensions	14	
Benefits – lump sums	9	
Administrative expenses	(42)	
Investment income	(397)	
Net gains/(losses) on currency revaluations and underwriting commissions	(359)	
Change in market value of investments – unrealised	(157)	
Change in market value of investments – realised	376	
Investment management expenses	98	
Overall impact	(345)	

Impact of adjusted misstatements

All adjusted misstatements arising from our audit procedures are set out in detail here and on the next page along with the impact on the financial statements.

There were no non-trivial unadjusted misstatements.

Listed left are the detailed adjustments made to the Fund Account as identified by the finance team.

Adjusted misstatements

Listed below are the detailed adjustments made to the Net Assets Statement as identified by the finance team.

Detail	Fund Account £'000	Net Assets Statement £'000
Investments held by the Fund Managers: property		19
Investments held by the Fund Managers: private equity		244
Investments held by the Fund Managers: hedge funds		956
Debtors		(231)
Creditors		(4)
Cash held by the fund managers		(602)
Outstanding trades for securities sold		(3)
Outstanding trades for securities purchased		3
Outstanding dividends and tax reclaimable		(37)
Overall impact		345

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	8	Benefits – lump sums (retirement grants)	A small number of lump sum payments have been reclassified across the three categories. This reclassification was made concomitantly with the net increase of £9k in the total of benefits – lump sums on the face of the fund account, as shown on page 11.
	1	Benefits – lump sums (death grants)	
2 Disclosure	-	Investments, receivables and financial instruments	Adjustments identified by the finance team have resulted in a significant number of changes being made to the notes to the financial statements.
3 Disclosure	-	Contingent liabilities and contractual commitments (Note 17)	The note was updated to replace the previous values as at 31 December 2013 with those as at 31 March 2014.
4 Disclosures	-	Events after the Reporting Period (Note 24)	The note was updated for the investment valuations since 31 March and also inclusion of the four employers within the Croydon Scheme who are not complying with the Scheme regulations in respect of contributions.
5 Disclosures	-	Related Party Transactions (Note 7)	This note has been revised to disclose positions held by two Council members during at employers within the Croydon Scheme during 2013/14. Also included are the amounts of transactions during the year and balances held at year-end between these two employers and the Croydon Scheme.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

From the work we have completed we have not identified any significant weaknesses in internal controls.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> Pending the completion of our sample testing of related party transactions as set out on page 4, we are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Fees, non audit services and independence

We confirm our planned fee, which remains under review as explained below. We confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fund audit	21,000	TBC
Total audit fees	21,000	TBC

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

Additional audit work has been required, as set out in this report. We will discuss the implications for the audit fee with the Director of Finance and Assets following the conclusion of the audit and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Undertake a quality review of the draft financial statements before they are presented for audit and ensure all working papers are completed in accordance with the agreed timetable.	High	Agreed.	30 June 2015 Head of Pensions and Treasury Management Nigel Cook
2	Ensure all investment valuations are updated with the most recent information received from the Fund's custodian and fund managers when preparing the draft financial statements.	High	Agreed.	30 June 2015 Head of Pensions and Treasury Management Nigel Cook

Appendix B: Audit opinion – pension fund financial statements

We anticipate that we will provide the Fund with an unmodified audit report.

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Croydon for the year ended 31 March 2014 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 2013/14.

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

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

As explained more fully in the Statement of the Director of Finance and Assets and Section 151 Officer Responsibilities, the Director of Finance and Assets and Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Assets and Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Review of 2013/14 by the Chief Financial Officer to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the Financial Review of 2013/14 by the Chief Financial Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Susan M Exton
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
London
NW1 2EP

XX September 2014

Appendix C: Audit opinion – pension fund annual report

We anticipate that we will provide the Fund with an unmodified opinion for the pension fund annual report.

Opinion on the pension fund financial statements

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

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

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

As explained more fully in the Statement of the Director of Finance and Assets and Section 151 Officer Responsibilities, the Director of Finance and Assets and Section 151 Officer is responsible for the preparation of the pension fund financial statements, in accordance with applicable United Kingdom law. Our responsibility is report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Croydon, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Croydon for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

[We have not considered the effects of any events between the date we signed our report on the full annual statement of accounts (insert date) and the date of this statement.]

Susan M Exton
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
London
NW1 2EP

XX September 2014



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