

To: Councillor Andrew Pelling (Chair);
Councillor Simon Hall (Vice-Chair);
Councillors Simon Brew, Patricia Hay-Justice, Maddie Henson, Yvette Hopley,
Dudley Mead, and John Wentworth

Reserve Members: Councillors Jamie Audsley, Robert Canning, Pat Clouder,
Jason Cummings, Badsha Quadir, Mike Selva and Donald Speakman.

Staff Side Representative; Mr Isa Makumbi

Pensioner Representatives: Ms Gilli Driver and Mr Peter Howard

A meeting of the **PENSION COMMITTEE** which you are hereby summoned to attend, will be held on **Tuesday 18th October 2016 at 10:00 a.m.**, in **Council Chamber, the Town Hall, Katharine Street, Croydon CR0 1NX.**

JACQUELINE HARRIS-BAKER
Acting Council Solicitor and Acting
Monitoring Officer
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10 October 2016

AGENDA - PART A

1. Apologies for absence

2. Minutes of the last meeting (Page 1)

To approve the minutes of the last Pension Committee held on 7 June 2016 and the meeting held on 23 May 2016

3. Disclosure of Interest

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality in excess of £50. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Business Manager at the start of the meeting. The Chairman will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

To receive notice from the Chair of any business not on the Agenda which should, in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. Exempt Items

To confirm the allocation of business between Part A and Part B of the Agenda.

6. 2016 Actuarial Evaluation

To receive a presentation on Contribution Strategies by the Scheme Actuary, Hymans Robertson

7. Annual Report and Local Pension Board Report (Page 13)

8. Risk Register and Business Plan (Page 105)

9. Section 13 Report (Page 115)

10. Progress Report for Quarter Ended 30 June 2016 (Page 119)

11. [The following motion is to be moved and seconded as the "camera resolution" where it is proposed to move into part B of a meeting]

That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

AGENDA - PART B

B1. Part B minutes of the last meeting (Page 129)

To approve the Part B minutes of the last Pension Committee held on 7 June 2016

B2. Progress Report for Quarter Ended 30 June 2016 (Page 131)

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PENSION COMMITTEE

**Meeting held on Tuesday 7 June 2016 at 10am
in Room F10, The Town Hall, Katharine Street, Croydon, CR0 1NX**

WRITTEN MINUTES – PART A

Present: Councillor Andrew Pelling (Chair);
Councillor Simon Hall (Vice-Chair);
Councillors Simon Brew, Patricia Hay-Justice, Maddie Henson, Yvette Hopley, Dudley Mead and John Wentworth

Also Present: Ms. Gilli Driver (Pensioner Representative)
Mr. Peter Howard (Pensioner Representative)

In attendance: Councillors Jamie Audsley and Humayun Kabir
Nigel Cook, (Head of Pensions and Treasury)
Richard Simpson, (Assistant Chief Executive and s151 Officer)
Freda Townsend (Governance and Compliance Manager)
David Lyons (Aon Hewitt)
Jolyon Roberts (Pegasus Academy Trust and Croydon Local Pension Board)
Richard Warden (Hymans Robertson)
Elizabeth Olive (Grant Thornton)
Rufaro Dewu (Grant Thornton)
Hugh Grover (Chief Executive, London CIV)

A15/16 APOLOGIES FOR ABSENCE

Apologies were received from Daniel Carpenter (Aon Hewitt) and Mike Ellsmore (Chair of Croydon Local Pension Board).

A16/16 MINUTES OF THE MEETING HELD ON 8 MARCH 2016

The Chair proposed the following amendments to the draft minutes:

- At A07/16 to re-phrase the sentence:
“There was also concern raised over the proposed Secretary of State powers – as they stand it would allow intervention even where guidance isn’t followed.”
to:
“There was also concern raised over the proposed Secretary of State powers – as they stand it would allow intervention where rules are not followed but additionally where guidance is not followed.”
- At A08/16 delete the word “attached”
- At A10/16, second paragraph – replace “The Committee” with “A Committee Member”

RESOLVED that, inclusive of the amendments stated above, the Part A minutes of the meeting held on 8 March 2016 be signed as a correct record of the decisions taken.

A17/16 DISCLOSURES OF INTEREST

The Chair advised Members that they should consider exercising caution as regards to their contribution to Committee discussions as they related to their declared employments, especially if they were not in possession of a relevant dispensation from the Ethics Committee.

At agenda item 6, Councillor Audsley declared that he was employed by Share Action, an ethical investment organisation.

At agenda item 11 Councillor Wentworth declared that he was offered a contract with the STEP Academy Trust for consultancy services and as such would not participate in the discussion or vote on this item.

A18/16 URGENT BUSINESS

There was no urgent business to consider.

A19/16 EXEMPT ITEMS

The allocation of business between Part A and Part B of the agenda were confirmed as stated.

A20/16 ACTUARIAL ASSUMPTIONS (item 6)

This item was facilitated by Richard Warden and was introduced with a presentation that is published online [here](#).

The purpose of the valuation is to look back at the previous three years and determine what is required to meet the Fund's liabilities. Out of this process the contribution rates are recommended. The table at slide 5 identified the fundamental objective of the valuation – to bridge the gap between the liabilities of the Fund and its assets by estimating the future contributions and investment returns required. The Committee were directed to slide 6 which highlighted the many different bodies that now scrutinise the Local Government Pension Schemes (LGPS). It was added that the media and trade unions should be considered part of the scrutiny process as well.

A key outcome of the process is to establish a prudent discount rate, in relation to the rate of return for the investment funds. At Croydon the current discount rate was on an 80/20 ratio, which on an Asset Outperformance Assumption (AOA) of 2.2% would put the Fund in a 67% asset split. This was illustrated in the table at slide 10 where the traffic light system was explained as: Green – more than 69%, Amber – 65-69%,

Red – less than 65%. The second table at slide 10 illustrated the worst case scenario.

Richard Warden concluded that in his professional opinion the 2.2% assumption was prudent and he would be happy to sign off on it.

The second assumption to consider, detailed in slides 11 and 12, was an analysis of salary growth. The key issue here was austerity and the continued pay restraint within the public sector, which was currently a 1% pay rise per annum. The results of that analysis were detailed on slide 12.

In response to questions from the Committee, the following was stated:

- It was too early to estimate the likely effect of the outcome of the EU Referendum and so this has not been modelled into the process.
- What decisions other local authorities make with regard to their actuarial assumptions will become clear in September/October of this year. There is likely to be similarity between other London authorities, but the assumptions are likely to be different compared to other Funds outside of the capital.
- The traffic light parameters in the table at slide 10 are subjective and the professional opinion of Richard Warden – it illustrates the balance between the affordability of contributions and prudence.
- A balance needs to be struck between attaining the right level of money going into the Fund but not too much; there was a professional concern over raising the rate above 2.2%.
- The actuary is looking at the climate change risk but this hasn't yet been modelled.

In response to a question from the Committee, the Head of Pensions and Treasury added that a narrow approach was taken when considering investment in wind farms to mitigate the associated risks from this asset class.

The Committee considered the professional advice provided by the Scheme Actuary and were content to agree the assumptions made.

The Committee **RESOLVED** to:

- 1.1 Note the contents of the report.
- 1.2 Set an Asset Outperformance Assumption of 2.2%
- 1.3 Confirm that the pay growth assumption will be 1% per annum until 2020, and then RPI per annum thereafter.

A21/16 PENSION FUND AUDIT PLAN (item 7)

Elizabeth Olive from Grant Thornton introduced this item. The key risks identified were stated at pack pages 39 and 40 of the audit report: fraudulent transactions, management override controls and Level 3 Investments. There were also five other risks identified which were stated at pack pages 41 and 42 of the audit report.

There were no findings from the interim audit which was a positive outcome. The financial accounts were being received very soon from the Council and so the plan was for the final audit to be submitted for the September Pension Committee.

In response to questions from the Committee the following was reported:

- The cost for audit was the standard audit fee of £21,000 which is set by the Regulator.
- Currently the methodology was a substantive approach with sample testing. The vision is to move towards a controls approach from next year. The methodology has not changed significantly since the last audit.

The Assistant Executive Director, in response to a question from the Committee, confirmed that the Council recovers the VAT from the auditor's fee.

The Head of Pensions and Treasury, in response to a question from the Committee, stated that the Fund is subscribed to the National Fraud Initiative and the risk of fraud is monitored by, for example, requiring proof of life.

The Committee **NOTED** the contents of the Audit Plan.

A22/16

PROCUREMENT OF PROFESSIONAL SERVICES THROUGH NATIONAL LGPS FRAMEWORK (item 8)

The Head of Pensions and Treasury introduced this item. It was stated that the smooth running of the Fund relies on the professional services of external organisations such as Aon Hewitt and Hymans Robertson. The contracts for these services are due for renewal next year and the National LGPS Framework helps to procure these services efficiently and with proper checks. Specialist legal services are also procured through the Framework. The company who undertake the Fund's performance benchmarking have given notice that they are leaving this field of service and therefore it is proposed that this contract be sought through the Framework as well.

In response to questions from the Committee the Assistant Chief Executive stated the following:

- The Framework operates as an efficient route into the market but was not a joint contract with other authorities. Any services procured would be between the individual provider and Croydon.
- External legal services are used for specialist advice that cannot be obtained in-house and are procured on a case by case basis.
- All fees are set at a maximum rate through the Framework which can then be negotiated down with the individual providers.

The Committee **RESOLVED**:

1.1 That the contract for the Pension Fund investment consulting services, which is currently with AON Hewitt and will end 16 April 2017; The contract for Actuarial and benefit consulting services, which is currently with Hymans Robertson and will end 28 February 2017; and Legal services, in relation to the LGPS only;

are re-procured through the National LGPS Framework.

1.2 That officers are mandated to explore the option of jointly procuring Performance measurement services for the Pension Fund with partners within the London LGPS Pool, or more widely should the opportunity arise.

A23/16

ADOPTION OF COMMUNICATION STRATEGY (item 9)

The Head of Pensions and Treasury introduced this item. The Committee were directed to paragraph 3.1 of the covering report which listed the key stakeholder groups that the communication strategy was targeted at. The purpose of the strategy is to detail how these groups will be communicated with. Once the strategy is adopted it will be published on the Fund website.

In response to a question from the Committee it was stated that an annual members meeting used to be held but has recently been discontinued due to a combination of a lack of material to communicate and uncertainty of what to communicate at the event. However the concept had not been completely dismissed, with the key requirements being an appropriate venue and a clear message.

Jolyon Roberts expressed concern over some academy schools' experiences with communication through the Employers' Forum and Pension Board.

The Committee **RESOLVED** to approve the draft Communication Policy Statement.

A24/16

ADOPTION OF DISCRETIONS IN RESPECT OF ADMITTED BODIES THAT ARE CLOSED TO FURTHER MEMBERS (item 10)

The Head of Pensions and Treasury introduced the item. It was stated that LGPS regulations provide for approximately 200 discretions with regard to admitted bodies. The report explains the principles and definitions of discretions, for example on the basis of compassionate grounds. The discretions that are requested to be adopted are stated at paragraphs 3.4 to 3.7.

The Committee **RESOLVED** to adopt the discretions listed in paragraphs 3.4 to 3.7 inclusive, in respect of deferred scheme members previously employed by admitted bodies who are now closed to new entrants and for whom there is no successor body.

A25/16

ACADEMIES IN ARREARS OF EMPLOYER CONTRIBUTIONS TO THE LGPS (item 11)

The Head of Pensions and Treasury introduced the item. The issue of academies in arrears has been before the Committee several times in the last four years. Academies are given the same time period to recover the funding gap as the Council – 22 years. As such there is a risk based approach for setting contribution rates and there was no interest amongst academies for pooling. Pooling with the Council would be inappropriate as one of the key reasons for the establishment of academies is to create independence from local authorities. The report identified which academies are currently in arrears – this is a statutory requirement and the academies have been referred to the Pensions Regulator. The report also details the next steps – it was regrettable that this has required the preparation of issuing legal proceedings to recover the sums owed.

In response to questions from the Committee the following was stated:

- There is an equality of treatment between all admitted members, and the same assumptions are used for all academies.
- Local authorities inherently have strong covenant strength, unlike private companies, and this Committee has previously agreed that academies should be treated in the same manner.
- Officers had exhausted all forms of communication to create a dialogue between the academies in arrears. The methodology over how the contribution rates are set appears to be the fundamental issue for some of the academies.

Richard Warden added that he had not come across another local authority with this many academies in arrears. In terms of contribution rates, Croydon sits in the middle range for local authorities.

Jolyon Roberts stated many academies believed they were not receiving equal treatment and did not feel the consultation was meaningful.

The Committee was of the opinion that action had to be taken given how prolonged the issue of arrears had been. It was considered appropriate to take legal action as professional advice had been received regarding the assumptions used for the contribution rates and there was a fiduciary duty to recover the owed sums.

The Chair proposed, and Councillor Henson seconded, that two additional resolves be added for this item (1.3 and 1.4 as stated below).

The Committee **RESOLVED**:

- 1.1 To note the contents of the report and the actions described therein.
- 1.2 That the actions taken and those proposed are sufficient to discharge their responsibility under the Pensions Regulator's Guidance.
- 1.3 To look forward to improved communication between the Fund and the academies sector.
- 1.4 To require officers to keep the Committee informed of the course of legal action to recover contributions in arrears.

A26/16 GOVERNANCE REVIEW: LOCAL PENSION BOARD (item 12)

The Head of Pensions and Treasury introduced the item. It was stated that the contract to undertake the review was put out to open competition and was won by Aon Hewitt. Paragraph 3.4 of the covering report summarises the key findings of the review; there were many examples of best practice and five recommendations arising. Three of these recommendations have already been actioned and the remainder are currently being worked on by officers.

In response to questions from the Committee the following was stated:

- Council officers had no direct input into the drafting of the report so the ambiguity of the phrasing "meets legal requirements on the whole" could not be specifically commented upon. However, Committee members were reassured that there was nothing in the report that suggested the Fund was being administered contrary to legal rules.
- There was nothing in the report that officers took issue with.

The Committee discussed the possibility of attributing voting rights to the co-opted members of the Committee. It was agreed that the Constitution would be consulted and this matter would be revisited.

The Committee **RESOLVED** to:

- 1.1 Note the contents of the Governance review.
- 1.2 Note the progress against achieving the goals set out in the action plan.
- 1.3 Request that further progress against this action plan be reported to the Committee in six months.

A27/16 UPDATE FOR LONDON CIV (item 13)

Hugh Grover introduced this item with a presentation that can be found online [here](#). There are 33 London funds that the London CIV is working on behalf of, with nearly £30 billion worth of assets. Three years ago there

was a strong movement towards merging the London funds; this was ultimately dropped by Council leaders due to the impact of such a merger on fund sovereignty. London Councils was then tasked with developing a merger-based solution that maintained local sovereignty. This solution ultimately became the London CIV. Central government policy has since moved away from mergers but towards six to eight regional pools nationally. Governance at a local level is not affected however the ultimate decision to appoint a fund manager will reside with the company (i.e. the London CIV).

The guiding principles of the London CIV are that funds should enter it voluntarily and choose which asset classes they wish to invest into. The Committee were directed to the diagram at page seven of the presentation, which illustrated a simplified structure of the different sub-funds that local authorities choose to invest in. This “umbrella fund” also had the advantage of creating tax efficiency.

The Committee were informed that looking forward, the London CIV is searching for a global equity manager, and accessing property and other real assets.

In response to questions from the Committee the following was reported:

- Some loss of control from local authorities is necessary for the CIV to operate effectively, however the extent of this loss is significantly less than the merger proposition.
- Fund manager decisions will not be right every time, however the sub-funds will be monitored by the CIV as well as by individual funds, so there is an increased level of scrutiny.
- Local authorities will still be in control of their own asset strategies, the CIV’s role is to provide sub-funds to support delivery of those strategies. It is estimated that between 30 to 40 sub-funds, covering a range of asset classes, will be established.
- Ethical investment is a tricky issue as there is a polarity amongst different boroughs. The current policy is where the CIV have voting shares managers are asked to vote based on the Local Authority Pension Fund Forum (LAPFF) principles and guidance.
- Costs for the CIV are estimated to be in the region of £1.5 million – this is recovered through service charges to each participating borough and a fee to assets under management. The CIV is not a profit-making scheme.

The Committee **NOTED** the contents of the verbal report.

A28/16

PROGRESS REPORT FOR QUARTER ENDED 31 MARCH 2016 (item 14)

The Head of Pensions and Treasury introduced the item. The key headline of the report was a modest increase of the Fund’s value to £863 million. The Committee were also directed to Appendix G which provided an update on implementation of the revised investment strategy.

In response to questions from the Committee, David Lyons stated that:

- 1.25% per quarter will deliver the recovery plan within the time frame required.
- The Fund is looking to diversify investments away from equities. The London CIV will provide more opportunities for diversification.
- Some London boroughs have taken a less diversified approach which has worked well over previous years but may not deliver growth as strongly in the next five years.
- The Private Rented Sector (PRS) and property sectors were less likely to be affected by the EU referendum than other investments; the demand for affordable housing in London for young professionals is unlikely to diminish in the near future.

The Committee **NOTED** the contents of the report.

A29/16 **CAMERA RESOLUTION** (item 15)

The CAMERA resolution was proposed by Councillor Pelling and seconded by Councillor Henson.

The Committee **RESOLVED** that the Press and Public be excluded from the remainder of the meeting on the grounds that it is likely, in view of the nature of the business to be transacted or proceedings to be conducted, that there will be disclosure of confidential or exempt information falling within those paragraphs indicated in Part 1 of Schedule 12 A of the Local Government Act 1972, as amended.

SUMMARY OF PART B DISCUSSION

A30/16 The remainder of the meeting included disclosure of exempt information (as defined by paragraph 3 of Schedule 12A in Part 1 of the Local Government Act 1972: 'Information relating to the financial or business affairs of any particular person (including the authority holding that information)'). The minutes of the discussion are therefore also exempt and not available to the public.

A summary of the discussion is below, as required by section 100C(2) of the Local Government Act 1972.

item B1. The Committee **RESOLVED** that the Part B minutes of the meeting held on 8 March 2016 be approved as a correct record of the decisions taken and be signed by the Chair.

item B2. Progress Report for Quarter Ended 31 March 2016 (exempt under paragraphs 3 & 10)

The Committee **NOTED** the Part B content of the progress report.

The meeting ended at 13.03pm.

DRAFT

PENSION COMMITTEE

Meeting held on Monday 23 May 2016 at the rise of Annual Council
in the Council Chamber, The Town Hall, Katharine Street, Croydon, CR0 1NX

WRITTEN MINUTES – PART A

Present: Councillors Simon Brew, Simon Hall, Patricia Hay-Justice, Maddie Henson, Yvette Hopley, Dudley Mead, Andrew Pelling and John Wentworth

A31/16 **APPOINTMENT OF CHAIR AND VICE-CHAIR**

The Committee **RESOLVED** to appoint Councillor Andrew Pelling as Chair and Councillor Simon Hall as Vice-Chair of the Pension Committee.

Croydon Council

REPORT TO:	PENSION COMMITTEE 18 October 2016
AGENDA ITEM:	7
SUBJECT:	Annual Report and Local Pension Board Report
LEAD OFFICER:	Richard Simpson Executive Director of Resources
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 2015/2016 Annual Report and the report for the Croydon Local Pension Board for the same period.	
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 comment on Croydon Council's draft 2015/2016 Pension Fund Annual Report as attached at Appendix A to this report and, subject to any amendments then required, approve it for publication on the Croydon Pension Fund's website.
1.2 The Committee is asked to note the contents of the Annual Governance Report from the Fund's auditors, which is attached as Appendix B to this report.
1.3 The Committee is invited to note the Annual Report prepared by the Chair of the Croydon Local Pensions Board. This is attached as Appendix C to this report.

2 EXECUTIVE SUMMARY

- 2.1 This report asks the committee to approve the draft 2015/2016 Croydon Pension Fund Annual Report (Appendix A), the Annual Governance Statement, (Appendix B) and to note the Croydon Local Pension Board Annual Report (Appendix C).

3 DETAIL

- 3.1 A draft of the 2015/2016 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 (the Fund). The Annual Governance report, prepared by the Fund's external auditors, commenting on the final statement of accounts is shown separately in Appendix B.
- 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.
- 3.4 This report also highlights the Annual Report drafted by the Chair of the Croydon Local Pensions Board. This report sets out the work of the Board in its first year. The Pension Committee is invited to note this report.

4 CONSULTATION

- 4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

- 5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Acting Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within this report.

(Approved for and on behalf of Jacqueline Harris-Baker, Acting Council Solicitor and Acting Monitoring Officer.)

7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report does not contain any information which will not be made publically available by being published on the Council's Pension Fund website.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Corporate Resources Department, ext. 62552.

Appendices

Appendix A: Draft 2015/2016 Croydon Pension Fund Annual Report

Appendix B: Annual Governance Report

Appendix C: Annual Report of the Croydon Local Pensions Board

Croydon Pension Scheme

Annual Report 2015/2016



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Foreword



The Pension Committee, which since May it has been my privilege to chair, steers the main policies of the Pension Fund to provide for the good governance and stewardship of the Local Government Pension Scheme.

I must begin by thanking my predecessor, Councillor John Wentworth, for his hard work and diligence in chairing the Committee over the past two years. During his time as the Chair of the Committee the Pension Fund has grown significantly by 18.2 % from March 2014. Also the highest standards of governance have been set and the basis for a sustainable and affordable future for the Local Government Scheme established.

Thanks are also very much due to officers of the Council and the Fund's advisers Aon Hewitt for their care and advice in protecting the asset value of the Fund which is valued at £877.03 million as at March 31 2016.

The Pension Scheme serves a large community of its 25,000 members, and the other 80 Scheme employers, as well as the 3,400 teachers and NHS workers in their respective schemes that the council officer team also help. The Pension Committee is keen to conduct a positive dialogue with external Scheme employers so to maintain timely payments into the Fund.

The period covered by the Annual Report saw major oil and commodity price weakness. There were strong pull backs in emerging markets values with the Fund having divested from direct emerging markets exposure in February 2015. The first significant correction in global equities in four years was weathered. The Greek crisis consumed a lot of market attention. Central bank Quantitative Easing inflated some asset prices and drove some government bond yields into negative yielding territory.

In the face of the storms that have rolled across the landscape your investments returned 1.9% over the year and that put this Fund in the top quarter of local government funds for the second year running.

Whatever the short-term vicissitudes of the markets the Pension Fund takes a long term view appropriate to its long-term liabilities.

Being very much aware of the distortion of asset values by Central Bank action and the Fund's overweight position in equities the Pension Committee conducted its periodic review

of Statement of Investment Principles to plan for a transition of re-balancing the Fund's portfolio to include new investments in property, infrastructure and private equity.

The Pension Committee has also benefited from the scrutiny and strengthening of governance from the setting up a Local Pensions Board and you can find a report of their work here. [Sam, please insert a link.]

Councillor Andrew Pelling
Chair, Pension Committee

1. Management & Advisers

Pension Committee:

The Council is the administrating authority for the Pension Fund and discharges its duties in respect of managing the Pension Fund through 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 custodian;
- Reviewing investment managers' performance;
- Approving the actuarial valuation; and
- 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 comprises eight voting Members of the Council and four non-voting members: two pensioner representatives and one employee representative. The members of Pensions Committee during the 2015/2016 Municipal year are listed below:

Councillors:

Chairman:	John Wentworth (Andrew Pelling from 23/05/2016)
Vice-Chairman:	Simon Hall
Members:	Jan Buttinger
	Maddie Henson
	Yvette Hopley
	Humayun Kabir
	Dudley Mead
	Andrew Pelling (Chairman from 23/05/2016)

Reserve Members:	Carole Bonner, Robert Canning, Luke Clancy, Pat Clouder, Joy Prince, Donald Speakman
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Non-voting members:

Pensioners' Representatives:	Gilli Driver
	Peter Howard
Staff Representative:	Isa Makumbi

The Committee is supported by officers and independent external advisers.

Administering Authority:

London Borough of Croydon (The London Borough of Croydon Pension Fund)
Corporate Resources, Chief Executive's Department
5A Bernard Weatherill House
8 Mint Walk
Croydon CR0 1EA

Richard Simpson
Assistant Chief Executive & S151 Officer

Investment Advisers:

Daniel Carpenter
AON Hewitt
The Aon Centre, The Leadenhall Building
122 Leadenhall Street
London EC3V 4AN

Actuary:

Richard Warden
Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

Custodian of Assets:

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

Auditors:

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

Bankers:

Royal Bank of Scotland

Legal Advisers:

The Fund opts to procure legal advice on a case by case basis from the Croydon Council Legal Framework.

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. Independent Advisers Retained by the Fund:



2.3. Frameworks

The Croydon Fund is a Founder Member of the London CIV.



The Fund is also a Founder Member of the National LGPS Framework.



The Fund operates the Croydon Framework with 13 other administering authorities.



3. Publications

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

Funding Strategy Statement

The funding strategy statement is prepared in collaboration with the Fund's Actuary and in consultation with the Fund's employers and investment advisers. 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; and
- 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; and
- the voting rights of Committee members.

Statement of Investment Principles (SIP)

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

- the investment objective and style;
- the Fund's investment managers and the terms of their mandates; and
- 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; and
- the method and frequency of communications used such as newsletters, annual benefit statements, open days and the pensions website.

Training Log

Each administering authority is required to log each Pension Committee Member's training.

4. Membership

4.1. Organisations

4.1.1. Admitted:

Apetito	Impact Group Ltd
AXIS Europe plc	Interserve
BRIT School	Keyring
Capita Secure Information Solutions Ltd	London Hire Services Ltd
Carillion Integrated Services	Octavo
Churchill Services	Olympic (South) Ltd
Creative Environmental Networks	Quadron Services
Croydon Care Solutions	Roman Catholic Archdiocese of Southwark
Croydon Citizen's Advice Bureau	Ruskin Private Hire
Croydon Community Mediation	Skanska Construction
Croydon Voluntary Action	Sodexo Ltd
Eldon Housing Association	Turning Point
EM Highway Services Ltd	Veolia Environmental Services (UK) Ltd
Fairfield (Croydon) Ltd	Veolia South Waest London Partnership
Fusion	Vinci Facilities
Ground Control	Wallington Cars and Couriers
	Westgate Cleaning Services

4.1.2. Scheduled:

Addington High Academy	Norbury Manor Business and Enterprise
Aerodrome Primary Academy	College for Girls
Applegarth Academy	Oasis Academy Arena
ARK Oval Primary Academy	Oasis Academy Byron
Atwood Primary Academy	Oasis Academy Coulsdon
Broadmead Primary Academy	Oasis Academy Ryelands
Castle Hill Academy	Oasis Academy Shirley Park Primary
Chipstead Valley Primary School	Park Hill Junior School
Coulsdon College	Pegasus Academy
Crescent Academy	Paxton Academy
Croydon College	Riddlesdown Collegiate
David Livingstone Academy	Robert Fitzroy Academy
Edenham High School	Rowdown Primary School
Fairchildes Academy Community Trust	Shirley High School
Forest Academy	St Cyprian's Greek Orthodox Primary Academy
Gonville Academy	St James the Great RC Primary and Nursery
Good Shepherd Catholic Primary and Nursery	School
School	St Joseph's College
Harris Primary Academy Purley Way	St Mark's C of E Primary School
Harris Academy South Norwood	St Mary's Catholic Infant School
Harris Academy Upper Norwood	St Mary's Catholic Junior School
Harris City Academy Crystal Palace	St Thomas Becket Catholic Primary School
Harris Invictus Academy	The Archbishop Lanfranc School
Harris Primary Academy Benson	The Quest Academy
Harris Primary Academy Kenley	West Thornton Primary Academy
Harris Primary Academy Haling Park	Winterbourne Boys' Academy
Heathfield Academy	Wolsey Junior Academy
John Ruskin College	Woodcote High School
New Valley Primary School	

4.2. Resources for Members

4.2.1. Croydon Council Pension Website

The Scheme's Croydon website 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 their 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

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

the Local Government Pension Scheme. They are not included in the Pension Fund Accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVC's.

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: 0300 123 1047

Website: www.pensionsadvisoryservice.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 9
Mail Handling Site A

Wolverhampton WV98 1LU

Telephone Number: 0345 6002 537

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
5A, 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 allows scheme members to check their personal details, 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. This is 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 2014 onwards, pension benefits are based on career average revalued earnings and the accrual rate is 1/49th. Benefits for earlier membership consist of a pension calculated as 1/60th of final pay for each year of membership accrued from 1 April 2008 to 31 March 2014. The accrual rate is 1/80th of final pay for each year of membership accrued before 1 April 2008 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 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 pension contributions (APCs) to buy extra pension; and
- A money purchase additional voluntary contribution (AVC) scheme which operates with the Prudential offering pension and life assurance options.

5.6. Employee contributions

The bands of contribution rates are as shown below for contributions taken in respect of pensionable pay received from 1st April 2015. The employee pays contributions at the appropriate band rate on all pensionable pay received in respect of that job (or at half that rate if the employee is in the 50/50 scheme).

Contribution Table 2015/16

Band	Actual pensionable pay for an employment	Contribution rate for that employment – main scheme	Contribution rate for that employment – 50/50 scheme
1	Up to £13,600	5.5%	2.75%
2	£13,601 to £21,200	5.8%	2.90%
3	£21,201 to £34,400	6.5%	3.25%
4	£34,401 to £43,500	6.8%	3.40%
5	£43,501 to £60,700	8.5%	4.25%
6	£60,701 to £86,000	9.9%	4.95%
7	£86,001 to £101,200	10.5%	5.25%
8	£101,201 to £151,800	11.4%	5.70%
9	£151,800 or more	12.5%	6.25%

5.7. Age of retirement

Normal retirement age is now linked to State Pension Age, 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. Actuarial reductions may apply where benefits come into payment before the State Pension Age.
- 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 State Pension Age 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 2015 was based on the increase in CPI during the 12 months to September 2014 and was set at 1.2%.

5.9. Pension Fund Fraud / National Fraud Initiative

Following closure of the Audit Commission on 31 March 2015, The National Fraud Initiative (NFI), became the responsibility of the Cabinet Office. The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information that indicate a fraud, an error or an overpayment may have taken place, signaling the need for review and potential investigation.

For nearly two decades, the NFI has enabled the participants to detect fraud, overpayment and error totaling £1.17 billion. This includes £152 million detected in Scotland, Wales and Northern Ireland.

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 replaced the previous Code published by the Commission in 2006. The existing code of data matching practice will continue in effect until the Minister for the Cabinet Office issues a new code.

6. Changes to the Local Government Pension Scheme

6.1. The New LGPS 2014

The new LGPS 2014 came into effect on 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.

6.1.1. 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.

6.1.2. 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 specifications are available online from a new website <http://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 contains the timeline regulations for the new scheme, access to statutory and GAD guidance, with links to other related legislation.

6.1.3. Consultations

1. Strengthening the incentive to save: a consultation on pensions tax relief

The consultation ran from 8 July 2015 to 30 September 2015 and a summary of responses was published in March 2016.

The government consulted on whether a case existed for reforming pensions tax relief to strengthen incentives to save and offer savers greater simplicity and transparency, or whether to keep the current system.

2. Consultation on a Public Sector Exit Payment cap

The consultation ran from 31 July 2015 to 27 August 2015.

The Government consulted on a policy proposal to limit the amount of redundancy and other exit payments (excluding pensions) that can be made to individuals leaving the public sector to £95,000. In terms of local government this could include pay in lieu of notice, redundancy and other severance payments as well as the employer cost of funding redundancy and efficiency retirements.

3. Consultation proposing to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The consultation ran from 25 November 2015 to 19 February 2016.

The Government drafted a set of new regulations for the management and investment of LGPS funds and was seeking views on whether the proposed revisions to the investment regulations would give authorities the flexibility to determine a suitable investment strategy that appropriately takes account of risk and whether the proposals to introduce the power of intervention as a safeguard would enable the Secretary of State to intervene, when appropriate, to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

4. Consultation on Public sector exit payment recovery regulations

The consultation ran from 20 December 2015 to 25 January 2016.

The government consulted on draft regulations that would give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015, which allow for the recovery of exit payments when a high earner returns to the public sector shortly after exit.

5. Consultation on reforms to public sector exit payments

The consultation ran from 5 February 2016 to 3 May 2016.

The government consulted on options to reform public sector exit payment terms to ensure greater consistency, fairness and sustainability in the provision of public sector compensation.

7. Investment Policy

As an administering pension authority, the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pension Committee. The strategic management of the assets is the responsibility of the Pension Committee that acts in consultation with Fund's investment adviser; Aon Hewitt. Day-to-day management of the investments is carried out by investment managers, who have been appointed by the Pension Committee, acting under an agreed mandate and Council officers acting under delegated powers.

The Pension Committee has prepared a Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and after taking appropriate advice.

The SIP outlines the principles and policies governing investment decisions made by or on behalf of the Fund. It also reflects compliance with the 'Myners Principles'.

As set out in the Regulations, the Pensions Committee will review the SIP from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change in relation to any matter contained in the SIP, changes will be reflected within six months of the change occurring.

During the year a review of the asset allocation was carried out and as a result the Pensions Committee agreed a revised asset allocation at the September 2015 Pensions Committee and a revised SIP became effective from December 2015.

The SIP can be viewed at <http://www.croydonpensionscheme.org/about-us/forms-and-publications.aspx>.

Asset Allocation

The strategic asset allocation was reviewed during the year and a revised target asset allocation became effective in December 2015. The new asset allocation is as follows:

Asset Class	Investment
Equities	42% +/- 5
Fixed Interest	23% +/- 5
Alternatives	34% +/- 5
Cash / Other	1%
Total	100%

The Alternatives category is further broken down as follows:

Asset Class	Investment
Private Equity	8%
Infrastructure	10%
Property	10%
Private Rental Sector Property (PRS)	6%
Total	34%

The Pensions Committee recognises that it will take a period of time in order to complete the transition to the revised asset allocation. This is due to the assets included within the Alternative category being illiquid and the take time it takes to source investable opportunities. During the year progress was made towards the transition of assets to the new investment strategy. Hedge funds were fully liquidated in October 2015 and the allocations to private equity, Infrastructure and Property all increased by 1.5% over the year. The Fund remained overweight in Equities, holding 56%. The transition to the new strategic asset allocation was and will continue to be monitored by the Pension Committee on a quarterly basis.

During the year two new managers were appointed; Access Capital Partners Limited which manages a Co-Investment vehicle investing in European Smallcaps and Temporis Capital LLP which manages a fund investing in Onshore Wind Farms. Further commitments were also made to our existing infrastructure and private equity managers.

The distribution of the Fund's assets among investment managers at 31st March 2016 is outlined overleaf.

Investment Manager	Investment Mandate	% of Fund
Legal & General	Global Equities (Segregated)	49.49%
Legal & General	Global Equity (Pooled)	7.05%
Standard Life	Corporate Bond Fund and Absolute Return Global Fund (Pooled)	13.74%
Wellington	Sterling Core Bond (Pooled)	6.72%
Pantheon	Private Equity Invest in unquoted companies (Pooled FofF) (US Dollar & Euro)	4.94%
Equitix	Infrastructure – PFI Projects (Pooled)	4.30%
Temporis	Infrastructure – Onshore Wind Farms	0.64%
Knightsbridge	Private Equity – Venture Capital (Pooled FofF) (US Dollar)	1.60%
Access	Private Equity - Co-Investment Small European Buyout	0.23%
Schroder	UK Property Funds	10.51%
All Fund Managers – Cash Management	Maximising short term returns prior to the investment of funds	0.49%
LB of Croydon Cash Management	Cash at bank	0.28%
Goldman Sachs Account	AAA Rated Money Market Fund	0.00%
Total		100.00%

7.1 Monitoring the Investment Managers

Performance of the investment managers is reviewed formally at the quarterly Pension Committee meetings. To assist the Pensions Committee reports on Fund Managers performance are provided by the Council's officers, State Street Performance Services and Aon Hewitt. Additionally, the Council's officers and advisers meet the investment managers regularly to review their actions together with the reasons for their investment performance.

7.2 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

APPENDIX A

New York Mellon also maintain records for all the Pension Fund investments, with the exception of internally managed cash.

8. Investment Report

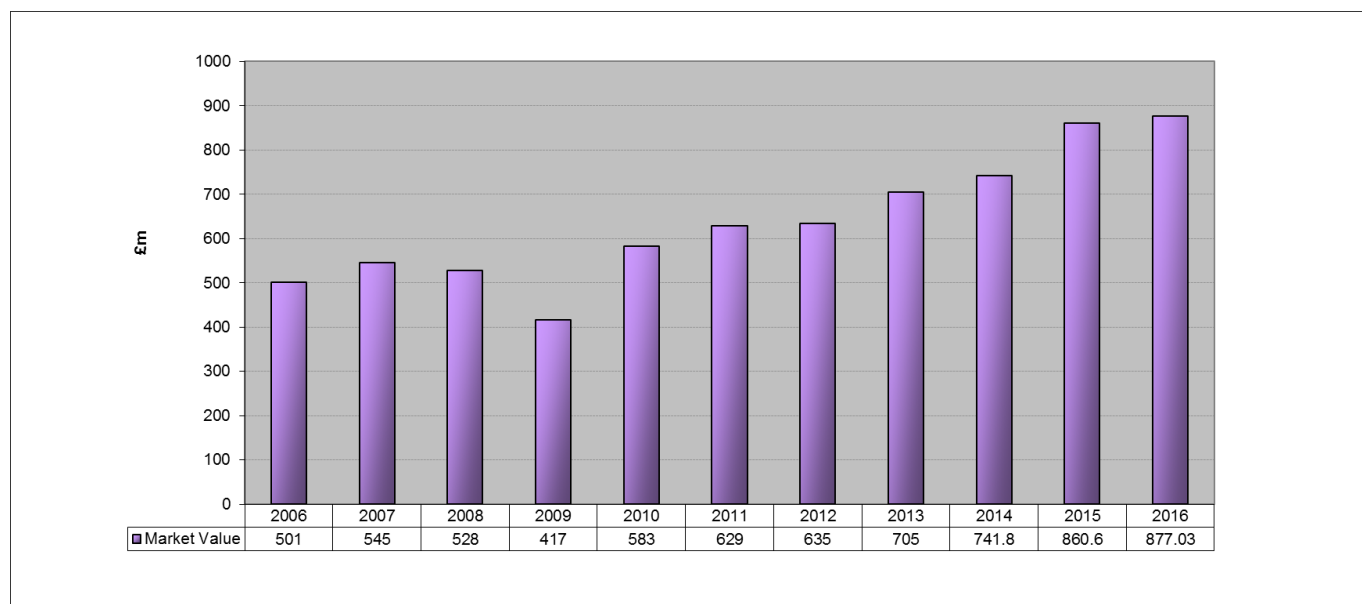
8.1. Performance

The Fund's performance is compared with the Council's own customised benchmarks and to the average return from 88 local authority pension funds, as measured by State Street Performance Services. During the 2015/16 financial year the Fund's return of 1.9% underperformed its customised benchmark of 2.1% by 0.2%. The Fund was placed in the upper quartile when compared to the other local authority pension funds outperforming the average return of 0.2% by 1.7%.

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 next Actuarial Valuation is due effective 31 March 2016 and the results will be available in February 2017.

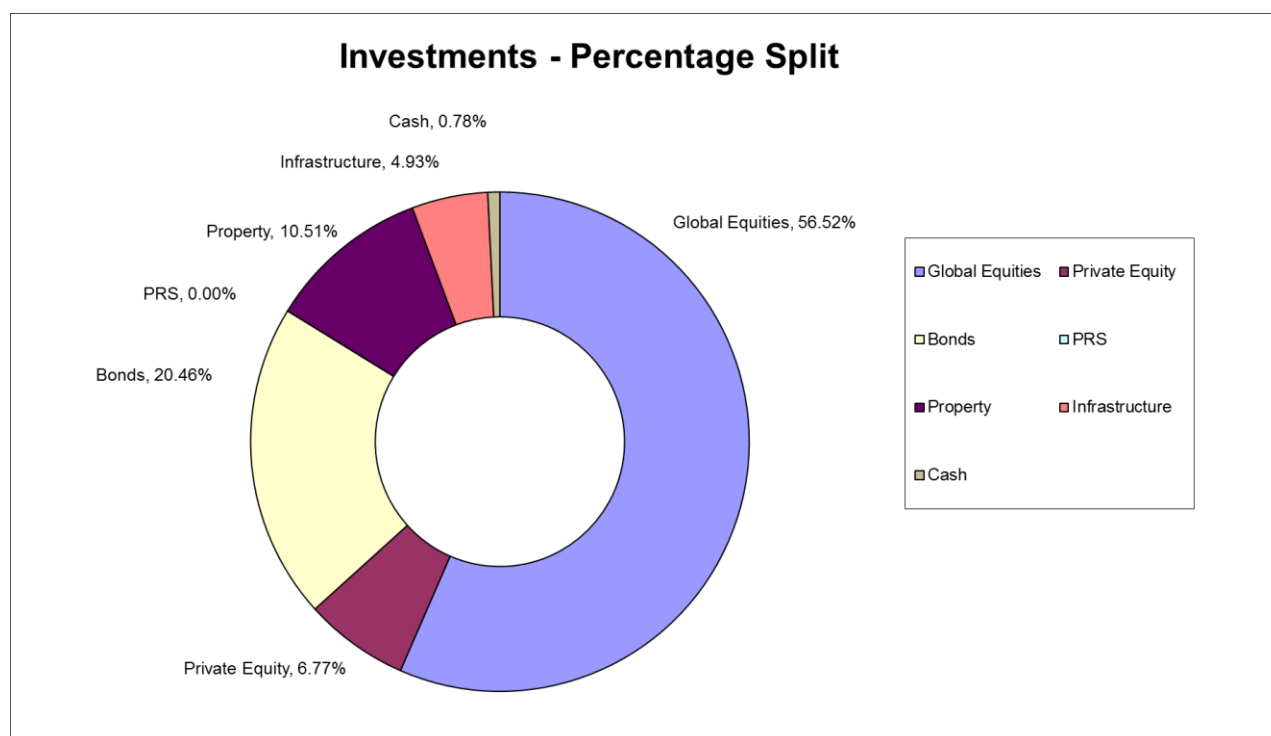
8.2. Movement in the Market Value of the Fund

The net assets of the Fund at 31 March 2016 were £877.03m compared with £501m at 31 March 2006. The chart below shows the growth of the Fund's assets over the past ten years.



Net Assets	2015/16 £m	%
Market Value of investments	872.48	99.5%
Other Balances held by Fund Managers	1.50	0.2%
Cash held by Fund managers	4.31	0.5%
LBC Fund Net Current Assets	-1.26	-0.1%
Total at the end of the year	877.03	100%

8.3. Distribution of Assets by Market Value



Investments	2015/16 £000s	% of Investments
Global Equities	497.2	56.5%
Private Equity	59.5	6.8%
Bonds	179.9	20.5%
PRS	0.0	0.0%
Property	92.4	10.5%
Infrastructure	43.4	4.9%
Cash	6.8	0.8%
Total at the end of the year	879.2	100.0%

Note: percentages do not add up to 100% because of roundings

8.4. Statistics 2015/2016

Annualised Returns	Croydon Fund	Average Local Authority
1 year (% per year)	1.9	0.2
3 years (% per year)	7.1	6.4
5 years (% per year)	6.7	7.1

Pension Fund Investment Distribution:	Croydon Fund	Average Local Authority
Global Equities	56.5%	60.1%
Private Equity	6.8%	4.7%
Bonds	20.5%	16.4%
Property (including PRS)	10.5%	9.1%
Other Alternatives	4.9%	1.8%
Cash	0.8%	2.9%
Hedge Funds	0.0%	2.2%
Pooled Multi Asset	0.0%	2.8%

Note: percentages do not add up to 100% because of roundings

8.5. Top 25 Global Holdings

	Market Value at 31 March 2016	% of Total of Fund
APPLE INC	15,502,295	1.77%
MICROSOFT CORP	10,840,032	1.24%
JOHNSON & JOHNSON	7,626,990	0.87%
WELLS FARGO & CO	6,338,919	0.72%
AT&T INC	6,206,498	0.71%
NESTLE SA	5,996,399	0.68%
ALPHABET INC	5,700,838	0.65%
PROCTER & GAMBLE CO/THE	5,668,297	0.65%
VERIZON COMMUNICATIONS INC	5,659,048	0.65%
ALPHABET INC	5,540,523	0.63%
COCA-COLA CO/THE	4,904,999	0.56%
ROCHE HOLDING AG	4,555,050	0.52%
WALT DISNEY CO/THE	4,273,138	0.49%
NOVARTIS AG	4,052,274	0.46%
INTEL CORP	3,910,591	0.45%
MERCK & CO INC	3,791,865	0.43%
TOYOTA MOTOR CORP	3,778,939	0.43%
COMCAST CORP	3,774,568	0.43%
CISCO SYSTEMS INC	3,707,280	0.42%
BANK OF AMERICA CORP	3,636,186	0.41%
UNITEDHEALTH GROUP INC	3,199,717	0.36%
CITIGROUP INC	3,168,877	0.36%
HSBC HOLDINGS PLC	3,118,080	0.36%
CVS HEALTH CORP	2,912,317	0.33%
AMGEN INC	2,888,461	0.33%
	130,752,182	14.91%

9. Pension Fund Annual Accounts 2015/16

CROYDON'S ROLE AS A PENSION ADMINISTERING AUTHORITY

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

FUND'S OPERATIONS AND MEMBERSHIP

The London Borough of Croydon Pension Fund (the Fund) operates a defined benefit scheme whose purpose is to provide benefits 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. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

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

Admitted:

Apetito, AXIS Europe plc (Housing Repairs), BRIT School, Cabrini Children's Society, Capita Secure Information Solutions Ltd, Carillion Integrated Services, Churchill Services, Creative Environmental Networks, Croydon Citizen's Advice Bureau, Croydon Care Solutions, Croydon Community Mediation, Croydon Voluntary Action, Eldon Housing Association, EM Highway Services Ltd, Fairfield (Croydon) Ltd, Fusion, Ground Control, Impact Group Ltd, Interserve, Keyring, London Hire Services Ltd, Mayday Travel Ltd, Octavo, Olympic (South) Ltd, Quadron Services, Roman Catholic Archdiocese of Southwark, Ruskin Private Hire, Skanska Construction, Sodexo Ltd, South London Waste Partnership Ltd, Turning Point, Veolia Environmental Services (UK) Ltd, Vinci Facilities, Wallington Cars and Couriers, Westgate Cleaning.

Scheduled:

Meridan (Addington) High Academy, Aerodrome Primary Academy, Applegarth Academy, The Archbishop Lanfranc School ARK Oval Primary Academy, Atwood Primary School, Beulah Infants School, Broadmead Primary School, Castle Hill Academy, Chipstead Valley Primary School, Coulsdon College, Crescent Primary Academy, Croydon College, David Livingstone Academy, Edenham High School, Fairchildes Primary School, Forest Academy, Gonville Academy, Good Shepherd Catholic Primary, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Upper Norwood), Harris City Academy (Crystal Palace), Harris Primary Academy (Benson), Harris Primary Academy (Kenley) Harris Invictus Academy Croydon, Harris Primary Academy Haling Park, Heathfield Academy, John Ruskin College, New Valley Primary, Norbury Manor Business and Enterprise College for Girls, Oasis Academy Byron, Oasis Academy Arena, Oasis Academy Coulsdon, Oasis Academy Ryelands, Oasis Academy Shirley Park, Pegasus Academy, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Rowdown Primary School, Shirley High School Performing Arts College, South Norwood Academy, St Cyprian's Greek Orthodox Primary School Academy, St James the Great RC Primary and Nursery School, St Joseph's College, St Mark's COE Primary School, St Mary's Infants School, St Mary's Junior School, St Thomas Becket Catholic Primary School, Winterbourne Junior Boys, West Thornton Primary Academy, Wolsey Junior Academy, Paxton 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 eight 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.

APPENDIX A

PENSION FUND ACCOUNTS			
FUND ACCOUNT	Notes	2015/16 £'000	2014/15 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions	8	52,518	49,593
Individual Transfers in from Other Pension Funds		1,429	2,768
		53,947	52,361
Benefits			
Pensions	9	39,792	37,511
Commutation, Lump Sum Retirement and Death Benefits	9	10,326	8,689
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		1,727	2,139
Refunds to Members Leaving Service		127	62
		51,972	48,401
Net additions from dealings with members		1,975	3,960
Management Expenses	10	3,031	4,478
RETURNS ON INVESTMENTS			
Investment Income	11	14,460	9,150
Taxes on Income (Irrecoverable Withholding Tax)	11	(648)	(292)
		13,812	8,858
Profit and loss on disposal of investments and changes in the market value of investments	13	3,671	110,372
Net returns on investments		17,483	119,230
Net increase in the Fund during the year		16,427	118,712
Net assets at the start of the year		860,599	741,887
Net assets at the end of the year		877,026	860,599

APPENDIX A

PENSION FUND ACCOUNTS - NET ASSETS STATEMENT

NET ASSETS STATEMENT

	Notes	31 March 2016 £'000	31 March 2015 £'000
Investments held by the Fund Managers:			
Global equities - segregated funds	13	435,188	430,301
Global equities - pooled funds	13	61,962	50,438
Private equity	13	59,534	45,248
Infrastructure	13	43,373	29,485
Fixed Interest	13	179,915	178,717
Hedge funds	13	-	32,398
Property	13	92,431	77,346
Derivatives	13	74	36
Total Investments held by the Fund Managers		872,477	843,969
Other Balances held by the Fund Managers			
Cash held by the Fund Managers	13	4,310	10,118
Investment income due	13	2,295	1,205
Amounts receivable for sales	13	-	-
Amounts payable for purchases	13	(794)	(39)
Total Other Balances held by the Fund Managers		5,811	11,284
Total Assets held by the Fund Managers		878,288	855,253
Current Assets	17	6,986	12,533
Current Liabilities	18	(8,248)	(7,187)
Net Assets of the fund available to fund benefits		877,026	860,599

NOTES TO THE PENSION FUND ACCOUNTS

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 2015/16 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.

The accounts summarise the transactions of the Fund and the net assets available to pay pension benefits. They do not take account obligations to pay pensions and benefits which fall due after the accounting year. The actuarial position of the fund which does take into account such obligations is dealt with in note 23.

2. STATEMENT OF INVESTMENT PRINCIPLES

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

3. BASIS OF PREPARATION

Going Concern

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Employer deficit funding contributions are accounted for in accordance with the agreement under which they are being paid. 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. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in. 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 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.

NOTES TO THE PENSION FUND ACCOUNTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

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.

Oversight and Governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged to the Fund.

The cost of obtaining investment advice from the external advisors is included in oversight and governance costs.

Investment management expenses

All investment management expenses are accounted for on 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.

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. Quoted securities and Pooled Investment Vehicles have been valued at bid price. Quoted securities are valued by the Fund's custodian; Bank of New York Mellon. Pooled Investments, Private Equity, Infrastructure, Hedge funds and Pooled Property Investments are as quoted by their fund managers.

Derivatives

Derivatives are valued at fair value on the following basis: assets at bid price and liabilities at offer price.

Changes in the fair value are included in the change in market value in the Fund account.

The value of open futures contracts is determined using exchange prices at the reporting date.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the year end.

Cash and cash equivalents

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 by the Code, 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).

NOTES TO THE PENSION FUND ACCOUNTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 22).

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 23. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of many private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving factors which include the valuations of companies deemed comparable to the asset being valued, the future cash flow expectations and discount factors used.

6. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER 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.

The effects on the net pension liability can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £145m. A 0.5% increase in the salary increase assumption would result in a £39m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £104m increase and a 1 year increase in the life expectancy would result in a £44m increase to the pension liability.

NOTES TO THE PENSION FUND ACCOUNTS

7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 2013 which calculated the total accrued liabilities to be £1,064m (2010: £884m). The market value of the Fund's assets at the valuation date was £705m (2010: £583m). The Fund deficit was therefore £359m (2010: £301m) producing a funding level of 66.3% (2010: 66%). The next triennial valuation is due effective 31 March 2016.

The recommended common contribution rate effective 1 April 2014 was 31.4% (2010: 23.0%). The common contribution rate payable is the average future service rate for Fund employers plus an additional amount to recover the deficit and bring the funding level back to 100% over a period of 22 years, as set out in the Funding Strategy Statement. This does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates.

The actual minimum employer rates are given below:

	Contribution rate required Plus Additional Payment as a percentage of pay (surplus adjustment)			
	2015/16 % of pay	2016/17 % of pay	2015/16 £'000	2016/17 £'000
London Borough of Croydon and Grouped Scheduled Bodies				
London Borough of Croydon	14.1	15.1	11,594	11,594
Croydon College	14.1	15.1	393	393
Coulsdon College	14.1	15.1	84	84
John Ruskin College	14.1	15.1	55	55
Fairfield (Croydon) Ltd	14.1	15.1	22	22
Croydon Care Solutions	14.1	15.1	201	201
Other Grouped Bodies				
Croydon Voluntary Action	20.4	20.4	73	76
Cabrini Children's Society	20.4	20.4	239	247
Croydon Citizens Advice Bureau	20.4	20.4	6	6
Croydon Community Mediation	20.4	20.4	2	2
Creative Environmental Networks	20.4	20.4	4	5
BRIT School	17.9	17.9	36	38
Veolia	24.3	24.3	27	28
Interserve	23.2	23.2	76	78
Fusion	13.6	13.6	2	2
Eldon Housing PFI	18	18	-	-
Apetito	14.2	14.2	-	-
EM Highway Services Ltd	23	23	-	-
Mayday Travel Ltd	18.9	18.9	-	-
Impact Group	19.6	19.6	-	-
London Hire Services	19.2	19.2	-	-
Churchill Services	16.6	16.6	-	-
Olympic South Ltd	20.4	20.4	-	-
Wallington Cars	15.5	15.5	-	-
Skanska Construction UK Ltd	24.7	24.7	-	-
Ground Control	23.6	23.6	-	-
Sodexo Limited	18.2	18.2	-	-
Vinci Facilities	19.9	19.9	-	-
Carillion Integrated Services	20.7	20.7	-	-
Quadron Services	27.1	27.1	-	-
AXIS Europe plc (Housing Repairs)	25.5	25.5	-	-
Capita Secure Information Solutions Ltd	24.6	24.6	-	-
Keyring	25.6	25.6	-	-
Roman Catholic Archdiocese of Southwark	18.7	18.7	-	-
South London Waste Partnership	15.5	15.5	-	-
Westgate Cleaning	27	27.0	-	-
Octavo	24.2	24.2	-	-

NOTES TO THE PENSION FUND ACCOUNTS

	Contribution rate required as a		Plus Additional Payment	
	percentage of pay		(surplus adjustment)	
	2015/16	2016/17	2015/16	2016/17
	% of pay	% of pay	£'000	£'000
Academies				
Harris City Academy (Crystal Palace)	13	13	-	-
Harris Academy (South Norwood)	15.1	15.1	6	6
Harris Academy (Upper Norwood)	18.9	18.9	12	13
Harris Primary Academy Benson	18.4	18.4	32	33
Harris Academy Kenley	16.0	16.0	10	11
Oasis Academy Coulsdon	20.8	20.8	66	68
Oasis Academy Shirley Park	18.1	18.1	127	132
Archbishop Lanfranc Academy	23.8	23.8	120	124
Harris Academy (Purley)	17.5	17.5	51	53
St Joseph's College	20.9	20.9	56	57
St Cyprian's Greek Orthodox Primary School	17.8	17.8	15	16
Norbury Manor Business and Enterprise College for Gir	18.3	18.3	51	53
Woodcote High School	19.3	19.3	77	80
St James the Great R.C Primary	24.9	24.9	58	60
Riddlesdown Collegiate	17.3	17.3	85	88
Shirley High School	19.6	19.6	52	53
Oasis Academy Byron	18.6	18.6	16	16
Robert Fitzroy Acadmey	11.5	11.5	-	-
St Thomas Becket RC Primary	21.2	21.2	23	24
Aerodome Primary School	18.1	18.1	15	15
The Quest Academy	20.4	20.4	47	49
ARK Oval Primary Academy	15.3	15.3	7	7
Pegasus Academy Trust	18.7	18.7	40	41
Gonville Academy (STEP)	19.9	19.9	17	18
West Thornton Primary Academy	16.8	16.8	43	44
David Livingstone Academy (STEP)	16.0	16.0	1	1
Addington High School	18.5	18.5	51	52
Applegarth School	18.3	18.3	23	23
Forest Academy	16.9	16.9	11	11
Wolsey Junior Primary Academy	20.4	20.4	29	30
Castle Hill Academy	16.5	16.5	24	25
Atwood Primary Academy	17.3	17.3	17	17
Oasis Academy Ryelands	16.3	16.3	35	36
Winterbourne Junior Boys	19.1	19.1	26	27
Beulah Nursery and Infant School	19.6	19.6	54	55
Broadmead Primary School	18.8	18.8	76	79
Chipstead Valley Primary School	19.8	19.8	38	40
Fairchildes Primary Academy	15.7	15.7	73	76
Harris Invictus Academy Croydon	16.5	16.5	-	-
Harris Primary Academy Haling Park	16.5	16.5	-	-
New Valley Primary School	20.7	20.7	15	15
Rowdown Primary School	24.6	24.6	25	26
St Mark's COFE Primary School	21.2	21.2	16	17
Paxton Academy	16.1	16.1	-	-
Crescent Primary Academy	19.5	19.5	13	13
Edenham High	23.5	23.5	101	101
Good Shepherd Roman Catholic Primary	21.4	21.4	38	38
Heathfield Academy	22.1	22.1	1	1
Oasis Academy Arena	17.1	17.1	3	3
South Norwood Academy	14.1	14.1	-	-
St Mary's Infants School	24.1	24.1	52	52
St Mary's Junior School	24.1	24.1	24	24

NOTES TO THE PENSION FUND ACCOUNTS

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	2015/16 Range £	Contribution Rate %	2014/15 Range £	Contribution Rate %
1	0 -13,600	5.5%	0 -13,500	5.5%
2	13,601-21,200	5.8%	13,501-21,000	5.8%
3	21,201-34,400	6.5%	21,101-34,000	6.5%
4	34,401-43,500	6.8%	34,001-43,000	6.8%
5	43,501-60,700	8.5%	43,001-60,000	8.5%
6	60,701-86,000	9.9%	60,000-85,000	9.9%
7	86,001-101,200	10.5%	85,001-100,000	10.5%
8	101,201-151,800	11.4%	100,001-150,000	11.4%
9	151,800+	12.5%	150,000+	12.5%

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

	2015/16	2014/15	% change
Contributing members	8,757	8,180	7.1%
Deferred pensioners	8,676	7,967	8.9%
Pensioners	7,103	6,812	4.3%
Total	24,536	22,959	6.9%

8. CONTRIBUTIONS

By Authority:

	2015/16 £000	2014/15 £000
Administering Authority	37,751	35,293
Scheduled bodies	10,598	9,173
Admitted bodies	4,169	5,127
	52,518	49,593

By Type

	2015/16 £000	2014/15 £000
Employees normal contributions	10,964	10,588
Employers:		
Normal contributions	24,952	22,700
Deficit recovery contributions	14,353	15,672
Augmentation contributions	2,249	633
	52,518	49,593

9. BENEFITS

	2015/16 £000	2014/15 £000
Pensions	39,792	37,511
Commutation and lump sum retirement benefits	9,166	8,086
Lump sum death benefits	1,160	603
	50,118	46,200

NOTES TO THE PENSION FUND ACCOUNTS

10. MANAGEMENT EXPENSES

	2015/16 £000	2014/15 £000
Administration	1,323	1,080
Oversight and Governance	492	577
Investment management	1,216	2821
	3,031	4,478

Included in oversight and governance expenses is £21k (2015: £21k) in respect of audit fees. Included in the investment management expenses are £52k (2015: £698k) in respect of transaction costs.

11. INVESTMENT INCOME

	2015/16 £000	2014/15 £000
Equity dividends	11,834	6,631
Property funds	2,578	2,335
Interest on cash deposits	46	86
Other income	2	98
Total before taxes	14,460	9,150
Taxes on income	(648)	(292)
Total	13,812	8,858

12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	Legal and General (segregated and pooled funds)
Private equity	Knightsbridge, Pantheon and Access
Infrastructure	Equitix and Temporis
Fixed Interest	Standard Life and Wellington
Hedge Fund of Funds	Bluecrest*
Property	Schroder Investment Management
Cash	Cash is invested by the in-house team

* The fund fully redeemed its investment with BlueCrest on 23 October 2015 and re-invested the proceeds with Legal and General.

All managers have discretion to buy and sell investments within the constraints set by the Pension Committee and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The Pension Committee has authorised the Assistant Chief Executive and Section 151 Officer to exercise delegated powers to vary the Pension Fund's target asset allocation between asset classes as is deemed necessary. The dynamics which drove this process from late 2007 were the volatility in equity markets and the availability of investment opportunities tied into temporary market inefficiencies. The objective was to achieve a more consistent level of return aligned with the (then) 25 year recovery plan for the Fund but with a much lower aggregate level of risk.

The market value and proportion of investments managed by each fund manager at 31 March 2016 was as follows

	2016		2015	
	Market £'000	Market %	Market £'000	Market %
Legal and General	497,224	57.0%	480,775	57.0%
Pantheon Ventures	43,435	5.0%	32,188	3.8%
Knightsbridge	14,081	1.6%	13,060	1.5%
Access	2,018	0.2%	-	-
Equitix	37,779	4.3%	29,485	3.5%
Temporis	5,594	0.6%	-	-
Standard Life	120,792	13.8%	120,798	14.3%
Wellington	59,123	6.8%	57,919	6.9%
Bluecrest	-	-	32,398	3.8%
Schroder	92,431	10.6%	77,346	9.2%
Total investments	872,477	100.0%	843,969	100.0%

NOTES TO THE PENSION FUND ACCOUNTS

13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2015	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	430,301	62,548	(43,105)	(14,556)	435,188
Global equities - pooled funds	50,438	40,000	(29,627)	1,151	61,962
Private equity	45,248	12,958	(4,412)	5,740	59,534
Infrastructure	29,485	11,785	(2,079)	4,182	43,373
Fixed Interest	178,717	49	-	1,149	179,915
Hedge funds	32,398	-	(32,228)	(170)	-
Property	77,346	10,765	(1,768)	6,088	92,431
Derivatives	36	298	(167)	(92)	74
	843,969	138,403	(113,386)	3,492	872,477
Cash deposits	10,118			179	4,310
Amounts receivable for sales	---				-
Investment income due	1,205				2,295
Amounts payable for purchases	(39)				(794)
Net investment assets	855,253			3,671	878,288

	Market value 01 April 2014	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	284,739	840,209	(745,039)	50,392	430,301
Global equities - pooled funds	107,866	218,764	(298,304)	22,112	50,438
Private equity	30,804	10,628	(4,746)	8,562	45,248
Infrastructure	26,314	3,466	(5,126)	4,831	29,485
Fixed Interest	164,037	45	-	14,635	178,717
Hedge funds	29,567	-	-	2,831	32,398
Property	65,028	19,025	(13,140)	6,433	77,346
Derivatives	-	73	(1,013)	976	36
	708,355	1,092,210	(1,067,368)	110,772	843,969
Cash deposits	6,477			(400)	10,118
Amounts receivable for sales	2,162				-
Investment income due	688				1,205
Amounts payable for purchases	(1,736)				(39)
Net investment assets	715,946			110,372	855,253

NOTES TO THE PENSION FUND ACCOUNTS

14. ANALYSIS OF INVESTMENTS

	2016			2015		
	UK £'000	Foreign £'000	Total £'000	UK £'000	Foreign £'000	Total £'000
Global equities-segregated funds						
Legal and General Quoted	47,805	387,233	435,038	48,763	381,538	430,301
London CIV Unquoted	150	-	150	-	-	-
Total equities	47,955	387,233	435,188	48,763	381,538	430,301
Global equities - pooled funds						
Legal and General unit trust	61,962		61,962	41,942	8,496	50,438
Total pooled investments	61,962	-	61,962	41,942	8,496	50,438
Private Equity						
Pantheon Ventures managed fund	-	43,435	43,435	-	32,188	32,188
Knightsbridge managed fund	-	14,081	14,081	-	13,060	13,060
Access managed fund	-	2,018	2,018	-	-	-
Total private equity	-	59,534	59,534	-	45,248	45,248
Infrastructure						
Equitix managed fund	37,779	-	37,779	29,485	-	29,485
Temporis managed fund	5,594	-	5,594	-	-	-
Total Infrastructure	43,373	-	43,373	29,485	-	29,485
Fixed Interest						
Standard Life unit trust	120,792	-	120,792	120,798	-	120,798
Wellington managed fund	-	59,123	59,123	-	57,919	57,919
Total Fixed Interest	120,792	59,123	179,915	120,798	57,919	178,717
Hedge Fund of Funds						
Bluecrest managed fund	-	-	-	32,398	-	32,398
Total Hedge Fund of Funds	-	-	-	32,398	-	32,398
Property						
Schroder managed fund	92,431	-	92,431	77,346	-	77,346
Total Property	92,431	-	92,431	77,346	-	77,346
Derivatives (Quoted)						
Legal and General	-	74	74	-	36	36
Total investments	366,513	505,964	872,477	350,732	493,237	843,969

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

	2016		2015	
	Market £'000	Market %	Market £'000	Market %
Standard Life SLI Absolute Return Global Bond Strategies	64,972	7.4%	64,878	7.7%
Standard Life Corporate Bond	55,820	6.4%	55,920	6.6%
Wellington Sterling Core Bond Plus Portfolio	59,123	6.8%	57,919	6.9%
Legal and General World Equity Index	61,962	7.1%	-	-
Total value of investments	241,877	27.7%	178,717	21.18%

NOTES TO THE PENSION FUND ACCOUNTS

16. ANALYSIS OF DERIVATIVES

Legal & General use derivatives in South Korean markets in order to maintain equity exposure in line with the FTSE 4Good Index rather than trading directly in this market.

Type	Expires	2016		2015	
		Economic Exposure £'000	Market £'000	Economic Exposure £'000	Market £'000
Assets					
Overseas Equity	less than 1 year	3,298	74	2,581	36
Total value of investments		3,298	74	2,581	36

17. CURRENT ASSETS

	2015/16 £'000	2014/15 £'000
Cash balances	2,522	10,174
Other Local Authorities - Croydon Council	2,357	761
Other Entities and Individuals:		
Sundry Debtors	2,107	1,598
	6,986	12,533

18. CURRENT LIABILITIES

	2015/16 £'000	2014/15 £'000
Other Local Authorities - Croydon Council	(5,976)	(5,873)
Other entities and individuals:		
Sundry expenses	(2,272)	(1,314)
	(8,248)	(7,187)

The amount due to Croydon Council relates to transactions between the Fund and the Council all of which were settled through the Pension Fund bank account after the year end.

NOTES TO THE PENSION FUND ACCOUNTS

19. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES**Related Parties****Related parties include:**

- a. Councillors and their close families
- b. Certain Officers and Managers
- c. entities controlled by, and associates and joint ventures of, the scheme itself
- d. companies and businesses controlled by the Councillors or their close families

Three members of the Pensions Committee or their close family members had positions with employers in the fund. The details of their interests are outlined below.

Councillor	Fund Employer	Contributions payable by Fund Employer £	Amount Outstanding at 31 March 2016 £	Date of Payment
Cllr Buttinger	Hayes School Kenley			
Cllr Hall	Wolsey Junior Academy	133,902	29,000	07 July 2016
Cllr Hall	Applegarth Academy	154,764	-	
Cllr Mansell	Norbury Manor Primary School			
Cllr Mead	Fairfield Services Ltd	96,470	9,592	15 April 2016
Cllr Mead	Forestdale Primary			
Cllr Mead	Courtwood Primary School		-	

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.

The key management personnel of the fund are the Assistant Chief Executive (Corporate Resources and Section 151 Officer), and the Head of Pensions and Treasury. During the year a charge of £103.5k was made to the Fund for their services.

The only other financial relationship that either councillors 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 33 of the London Borough of Croydon's Statement of Accounts 2015/16.

20. 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.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £113.8m at 31 March 2016 (2015:£63.5m) based on:

USD 58.8m at exchange rate 1.437 equals £40.9m
 EUR 26.9m at exchange rate 1.261 equals £21.3m
 GBP £51.5m

These commitments related to outstanding call payments due on Private Equity, Infrastructure and Property investments. The amounts 'called' by these funds are both irregular in size and timing over a period of usually 3 to 6 years from the date of the original commitment.

22. 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 £265 k for 2015/16 (£260k in 2014/15), are sent directly to the relevant AVC provider.

The value at 31 March 2016 of separately invested additional voluntary contributions was £1.98m (£1.82m in 2014/15).

NOTES TO THE PENSION FUND ACCOUNTS

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

Actuary's Statement

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 2015/16 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 2016 £m	31 Mar 2015 £m
Active members	631	631
Deferred members	324	366
Pensioners	508	562
Present Value of Promised Retirement Benefits	1,463	1,559

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. 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.

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).

NOTES TO THE PENSION FUND ACCOUNTS

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

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 2016 is to decrease the actuarial present value by £137m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2016 %p.a.	31 Mar 2015 %p.a.
Inflation/Pensions Increase Rate	2.2%	2.4%
Salary Increase Rate	3.2%	3.3%
Discount Rate	3.5%	3.2%

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 identical to 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 75% 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 2016 for IAS19 purposes'. 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.

Sensitivity Analysis

Change in assumptions for the year ended 31 March 2016	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% decrease in the discount rate	10%	145
1 year increase in member life expectancy	3%	44
0.5% increase in salary increase rate	3%	39
0.5% increase in pensions increase rate	7%	104



Prepared by:-

Richard Warden FFA

20 April 2016

For and on behalf of Hymans Robertson LLP

NOTES TO THE PENSION FUND ACCOUNTS

24. EVENTS AFTER THE REPORTING PERIOD

The results of the referendum, held on 23rd June 2016 on whether the UK should remain in the EU impacts on the value and management of the Pension Fund. It will take a considerable period for this decision to be fully evaluated. Immediately though, there are repercussions for the banking sector, the valuation of underlying assets, the regulatory environment governing investments and sterling valuations.

25. FINANCIAL INSTRUMENTS

During the year the Pensions Committee, having considered advice from their investment advisors agreed a new target asset allocation for the Fund.

Below is the target asset allocation agreed by Pension Committee in 2015/16.

Asset Class	Benchmark	Weighting
UK and Overseas Listed Equities	FTSE 4 Good	42% + / - 5%
Fixed Interest Securities	18% Merrill Lynch Sterling non gilts all stocks index 12% Merrill Lynch Sterling Broad Market index	23% + / - 3%
Property	IPD All Properties index	10% + / - 3%
Private Rental Sector Property	IPD All Properties index	6%
Private Equity	CPI +5%	8%
Infrastructure	CPI +5%	10%
Cash and Short Term Deposits		1%
Total		100%

It is recognised that it may take some time to meet the new target asset allocation due to the nature of the assets.

NOTES TO THE PENSION FUND ACCOUNTS

25. FINANCIAL INSTRUMENTS (Continued)

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.

	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	179,915	-	-
Global equities	497,150	-	-
Pooled property investments	92,431	-	-
Private equity	59,534	-	-
Infrastructure	43,373	-	-
Derivatives	74	-	-
Other investment balances	-	6,605	-
Current Assets	-	6,986	-
Total Financial Assets	872,477	13,591	-
Financial Liabilities			
Other investment balances	-	-	(794)
Current liabilities	-	-	(8,248)
Total Financial Liabilities	-	-	(9,042)
Net Assets	872,477	13,591	(9,042)

Net Gains and Losses on Financial Instruments	31 March 2016 £'000
Financial assets	
Fair value through profit and loss	3,671
Loans and debtors	-
Financial assets measured at amortised cost	-
Financial liabilities	
Fair value through profit and loss	-
Loans and debtors	-
Financial liabilities measured at amortised cost	-
Total	3,671

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	872,477	872,477
Loans and Debtors	13,591	13,591
Total Financial Assets	886,068	886,068
Financial Liabilities		
Fair value through profit and loss	(9,042)	(9,042)
Financial liabilities at amortised cost	-	-
Total Financial Liabilities	(9,042)	(9,042)

NOTES TO THE PENSION FUND ACCOUNTS

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

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

Level One

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

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

Level Two

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

Level Three

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

These instruments include various unquoted equity investments 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 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 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through profit and loss	677,139	92,431	102,907	872,477
Loans and Debtors	13,591	-	-	13,591
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(9,042)	-	-	(9,042)
Net financial assets	681,688	92,431	102,907	877,026

NOTES TO THE PENSION FUND ACCOUNTS

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

Market Risk

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

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

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

Other price risk

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

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

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

Other price risk - sensitivity analysis

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

Asset type	Potential market movements (+/-)
Global Equities	9.79%
Total bonds plus index linked	4.21%
Alternatives	2.86%
Property	2.18%

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	Value on	Value on
	£'000	Change	Increase	Decrease
		%	£'000	£'000
Global Equities	497,150	9.79%	545,821	448,479
Total bonds plus index linked				
linked	179,915	4.21%	187,489	172,341
Alternatives	102,907	2.86%	105,850	99,964
Property	92,431	2.18%	94,446	90,416
Total Assets	872,403	5.84%	923,351	829,481

The % change for Total Assets includes the impact of correlation across asset classes

NOTES TO THE PENSION FUND ACCOUNTS

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

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2016 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 2016
	£'000
Cash Balances	6,832
Fixed interest securities	179,915
Total	<u>186,747</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 2016	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£'000	£'000	£'000
Cash Balances	6,832	68	(68)
Fixed interest securities	179,915	1,799	(1,799)
Total	<u>186,747</u>	<u>1,867</u>	<u>(1,867)</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.

Currency exposure - asset type	Asset Value as at 31 March 2016
	£'000
Overseas quoted securities	387,233
Overseas quoted securities - pooled	61,962
Overseas un-quoted securities	59,534
Overseas bonds	59,123
Overseas derivatives	74
Total overseas assets	<u>567,926</u>

*The legal & General pooled fund is domiciled in the UK but the underlying assets are global and is therefore included in the above for currency exposure analysis

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 5.34% (as measured by one standard deviation).

A 5.34% 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 36-month period.

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

NOTES TO THE PENSION FUND ACCOUNTS

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

A 5.34% 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 2016 £000	Change in net assets available to pay benefits	
		+5.34% £000	-5.34% £000
Overseas quoted securities	387,233	407,911	366,555
Overseas quoted securities - pooled	61,962	65,271	58,653
Overseas un-quoted securities	59,534	62,713	56,355
Overseas bonds	59,123	62,280	55,966
Overseas derivatives	74	78	70
Total overseas assets	<u>567,926</u>	<u>598,253</u>	<u>537,599</u>

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 will 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 investments in money market funds with a AAA rating from a leading rating agency.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past six financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2015 was £2.5m (£10.2m at 31 March 2015). This was held with the following institutions:

Summary	Rating at 31 March 2016	Balances as at 31 March 2016 £'000
Money Market Funds		
Goldman Sachs	AAA	35
Current Account		
Royal Bank of Scotland		2,487
Total		<u>2,522</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 2016 are due within one year.

Refinancing risk

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

10. Pension Fund Auditors Report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT

We have examined the pension fund financial statements of the London Borough of Croydon for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the Fund Account, the Net Assets Statement and the related notes.

This statement is made solely to the Members of the London Borough of Croydon, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the Members of the Authority those matters we are required to state to them in an auditor's statement and for no other purpose. 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 work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Chief Executive (Corporate Resources and Section 151 Officer) and Auditor

As explained more fully in the Statement of Responsibilities in the administering Authority's annual Statement of Accounts, the Assistant Chief Executive (Corporate Resources and Section 151 Officer) is responsible for the preparation of the Statement of Accounts which includes the pension fund financial statements, in accordance with applicable law and proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included 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 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the sections on: Membership and Investment Report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our reports on the administering authority's annual Statement of Accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of the London Borough of Croydon for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Grant Thornton UK LLP

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

25 September 2015

The Audit Findings for London Borough of Croydon Pension Fund

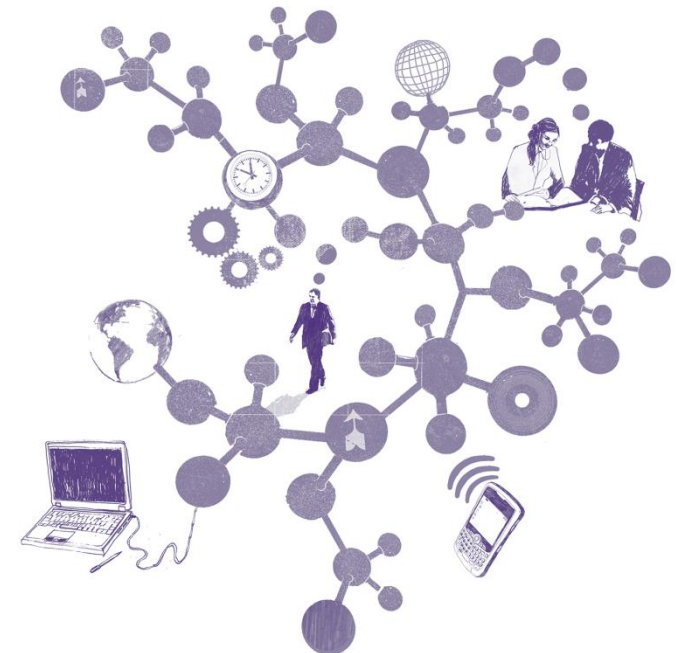
Year ended 31 March 2016

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Dear Members of the General Purposes and Audit Committee

Audit Findings for London Borough of Croydon Pension Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of London Borough of Croydon Pension Fund, the General Purposes and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with Richard Simpson.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Elizabeth Jackson
Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of London Borough of Croydon Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2016. 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, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan our Audit Plan presented to the General Purposes and Audit Committee in June 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- final testing of investments balances
- verifying final membership numbers
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation] and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements on 30 June and accompanying working papers were received over the course of our audit.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated opinion on the Annual Report at Appendix C.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustment affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net assets available for benefits during the year of £875,917k; the audited financial statements show net assets available for benefits during the year of £877,025k. This change relates to an understatement of infrastructure and private equity investments. This is due to final valuation figures as at 31 March 2016 for these investments not being available until after the draft financial statements were completed. As such, it is solely a timing issue of when the Fund received the information from the fund manager. Further details are provided in section 2 of this report.

We have also agreed with officers some minor adjustments to improve the presentation of the financial statements.

We received working papers throughout the audit. We have discussed this with management and confirmed that for the audit to be conducted in a timely manner we need all working papers and supporting documentation to be available on the first day of the audit. This will avoid delays in carrying out the audit and for officers to focus on responding to audit queries during the audit instead of preparing working papers to support the figures in the draft financial statements.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 report these to the Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

The way forward

Matters arising from the financial statements audit have been discussed with the Assistant Chief Executive (Corporate Resources and Section 151 Officer).

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.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £8,606k (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and identified a significant increase in net assets that led us to revise our overall materiality to £8,759k (being 1% of net assets).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £438k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we have not identified any items which require a separate materiality level.

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 (UK&I) 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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including London Borough of Croydon as the administering authority, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Level 3 Investments – Valuation is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We gained an understanding of the transaction including a review of supporting documentation. • We carried out walkthrough tests of the controls identified in the cycle. • Tested a sample of investments by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31s March with reference to known movements in the intervening period. • Reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • Reviewed the competence, expertise and objectivity of any management experts used. 	<p>Our audit work to date has not identified any issues in respect of the risk identified.</p> <p>As set out on page 5, we are currently waiting for direct confirmation for some investment balances. We have undertaken alternate audit procedures to gain assurance for the audit opinion if the confirmations are not provided before the committee.</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
<p>Investment purchases and sales</p>	<p>Investment activity not valid. (Occurrence)</p> <p>Investment valuation not correct. (Valuation gross or net)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances • Tested a sample of purchases and sales to ensure they are appropriate. 	<p>Our audit work to date has not identified any issues in respect of the risk identified.</p> <p>As set out on page 5, we are currently waiting for direct confirmation for some investment balances. We have undertaken alternate audit procedures to gain assurance for the audit opinion if the confirmations are not provided before the committee.</p>
<p>Investment values – Level 2 investments</p>	<p>Valuation is incorrect. (Valuation net)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances • For direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert. 	<p>Our audit work to date has not identified any issues in respect of the risk identified.</p> <p>As set out on page 5, we are currently waiting for direct confirmation for some investment balances. We have undertaken alternate audit procedures to gain assurance for the audit opinion if the confirmations are not provided before the committee.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	<p>Our sample testing of six contributions from scheduled and admitted identified two errors totalling £139 within contributions which has been extrapolated to £760k. Further details are set out later in this report on page 18.</p> <p>Our audit work has not identified any further significant issues in relation to the risk identified.</p>
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>
Member Data	Member data not correct. (Rights and Obligations)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample tested changes to member data made during the year to source documentation. 	<p>Subject to the satisfactory resolution of outstanding matters, our audit work has not identified any significant issues in relation to the risk identified</p>

Accounting policies, estimates and 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
<p>Revenue recognition</p>	<p>The financial statements include policies for recognition of the following:</p> <ul style="list-style-type: none"> • Investment income • Contribution income • Transfers in to the scheme <p>Revenue for the first two categories is recognised on an accruals basis, whilst for the third category it is recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.</p>	<p>Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities.</p> <p>Our testing has confirmed that these policies have been correctly and consistently applied.</p>	<p style="text-align: center;">● Green</p>
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Valuation of private equity and infrastructure investments • Present value of future retirement benefits 	<p>Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.</p>	<p style="text-align: center;">● Green</p>
<p>Going concern</p>	<p>Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>	<p style="text-align: center;">● Green</p>


Assessment

● Marginal accounting policy which could potentially attract attention from regulators (Red)

● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Other accounting policies</p>	<p>We have reviewed your policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.</p>	<p style="text-align: center;">  Green </p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the General Purposes and Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from your fund managers and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). These requests have been returned with positive confirmation except for four fund managers. We have undertaken alternative audit procedures for these balances to obtain assurance for the audit opinion.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. We have agreed a small number of adjustments with management to improve the disclosures in the financial statements.

Internal controls

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

Our audit included consideration of internal controls 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. We considered and walked through the internal controls for contributions, investments, benefit payments and member data as set out on pages 11-12.

The controls were found to be operating effectively and we have no matters to report to the General Purposes & Audit Committee.

Adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported surplus/deficit for the year.

Detail	Pension Fund Account £'000	Net Asset Statement £'000
1 Our testing has confirmed that infrastructure and private equity investments are understated in the financial statements. This is due to audited fund valuation data not being available at the time of compiling the draft accounts and is purely a timing issue.	Cr Changes in the market value of investments 1,108	Dr Investments held by the Fund Managers (Private Equity and Infrastructure)1,108
Overall impact	£(1,108)	£1,108

Other misstatements – uncertainty

The table below provides details of issues identified during the audit which have not been made within the final set of financial statements. The General Purposes and Audit Committee is required to approve management's proposed treatment. However, due to the nature of the finding we are not proposing an adjustment to the financial statements as the total error cannot be quantified without extensive testing. We have obtained assurance that this could not lead to a material misstatement in the 2015/16 financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Reason for not adjusting
1 Our audit testing of contributions identified two errors in the contribution rates of scheduled and admitted body returns. The cumulative effect of these errors is £139.46. We extrapolated the error over the total contributions paid in 2015/16 from all scheduled and admitted bodies and have calculated that the maximum potential misstatement is £759,878.	(760)	760	As the extrapolated amount is well below our materiality level for 2015/16 we have reported the uncertainty for information but do not propose any amendment to the accounts as an actual error cannot be quantified. Our testing did not identify any error in the contributions made by Council employees which is the majority of Fund contributors.
Overall impact	(£760)	£760	

Misclassifications and 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 Disclosure	21	Note 10	External audit fee comparative was incorrectly input per draft financial statements. This will be amended .
2 Disclosure	n/a	Note 7	Membership numbers were missing per draft financial statements. The revised version of the note includes the membership numbers.

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

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	21,000	21,000

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

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

DRAFT - INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF CROYDON PENSION FUND

We have audited the pension fund financial statements of London Borough of Croydon (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Assistant Chief Executive (Corporate Resources and Section 151 Officer) and auditor

As explained more fully in the Statement of the Assistant Chief Executive (Corporate Resources and Section 151 Officer) Responsibilities, the Assistant Chief Executive (Corporate Resources 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Chief Executive (Corporate Resources and Section 151 Officer); and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts Narrative Statement to identify material inconsistencies with the audited pension fund 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 financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Elizabeth Jackson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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XX September 2016



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APPENDIX C

REPORT TO:	LOCAL PENSION BOARD 7 July 2016
AGENDA ITEM:	9
SUBJECT:	Local Pension Board Annual Report
LEAD OFFICER:	Richard Simpson, Deputy Chief Executive and Section 151 Officer
LEAD MEMBER:	Councillor Pelling, Chair of Pension Committee
PERSON LEADING AT THE BOARD MEETING:	Nigel Cook, Head of Pensions and Treasury

1. EXECUTIVE SUMMARY

- 1.1 This report is an overview of the Croydon Pension Board's first operational year (2015-16).

2. DETAIL

- 2.1 Local Pension Boards were established under the 2013 Pensions Act .Each pension administering authority is required to establish a Board to assist with the effective and efficient governance and administration of the scheme. The Board is also tasked with ensuring compliance with the various legislative requirements and those of the pension's regulator, and this adds to the already well developed governance structure which underpins the pension scheme.
- 2.2 Croydon Council established its Board on the 1st April 2015, and appointed an independent Chair. The Chair is also invited to attend the Pensions Committee meetings. This provides as useful link between the Pensions Committee and the Board. The link is further strengthened by the attendance at the Board of the Deputy Chief Executive and section 151 Officer, and other key officers.

The Board members are:

Michael Ellsmore (Chair)

Employer Representatives:

Councillor Mike Selva

Richard Elliott

Jolyon Roberts

Reserve Member Councillor Hamida Ali

APPENDIX C

Employee Representatives:

David Whickman,
Nana Jackson-Ampaw
Teresa Fritz

Terms of Reference

Please see Appendix A

Training Undertaken

Please see Appendix B

- 2.3 The first year has seen the Board developing its role. It actively reviewed the governance of the Pension Fund and agreed a number of recommendations which will be follow up in the coming months. Whilst the role has developed into something akin to a scrutiny function, the Board continues to provide assistance to the administering authority in effectively managing and operating the scheme.
- 2.4 The Board receives all Pension Committee agendas and reports and focusses on particular areas of interest. It has specifically looked at the following:
- Strategic asset allocation
 - Consultation on investment reform [pooling]
 - A Governance review of the Pension Fund
- 2.5 Looking forward, 2016 /17 will be a year of great significance for the Local Government Pension Scheme (LGPS). The government has invited detailed submissions from schemes on how they will achieve combining their assets into a small number of pools with a value of in the region of £25 billion each. Whilst schemes will retain the all-important asset allocation decisions, the pooled funds will have a significant influence on the selection of managers. The Board will monitor Croydon's progress and the development of governance structures relating to the pooled funds.
- 2.6 Next year will also see the results of the triennial valuation. This determines the contribution rate that employers participating in the scheme will pay for the next 3 years.
- 2.7 The LGPS is becoming increasingly complex and 2016/17 will add to that complexity. The Board in developing its role will seek to assist and constructively challenge the administering authority in continuing to deliver effective management of the scheme.

3. RECOMMENDATIONS

- 3.1 The Board are asked to note the contents of the report.

APPENDIX C

CONTACT OFFICER: James Haywood,
Members Services Manager (Scrutiny).
020 8726 6000 x63319

ATTACHMENTS:

Appendix A: Terms of Reference

Appendix B: Training Log



2015

Local Pension Board 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 Local Pension Board Members for the year that Croydon Council (as the Administering Authority) has taken place in from 1 March 2015

Local Pension Board Members Training Log

The Local Pension Board 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 the Board 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 Investment 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 Board members is maintained and is available for inspection on request.

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

- ▶ External courses
- ▶ The Pensions Regulatory Trustee On-line tool kit
- ▶ 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 Board'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.

Local Pension Board 15/16 Training Log:

Name	Job		LGE Local Pension Board Members - 21 May 2015	1st June : Invite Members to be on board	10 June: Initial Hymans Training	LPB 2 Jul 2015	LPB 8 Oct 2015 Training on Asset Allocation	LGE Fundamentals Course 3 days (Oct-Dec 15)	CIPFA Pensions Conf Jan 2016	LGC Pensions Conf Feb 2016	TPC 7 Jan Training on Benefit Structure	TPC 21 April 2016 Training on work of LAPFF
Mike Ellismore	Chair		✓	✓	✓	✓	✓		✓	✓	✓	✓
Councillor Mike Selva	The Local Pension Board Employer Member	Employers				✓	✓				✓	✓
Councillor Hamida Ali	The Local Pension Board Employer Member	Reserve Member				✓	✓	✓			✓	✓
David Whickman, Unite	The Local Pension Board Employer Member	Union Rep			✓	✓	✓				✓	
Nana Jackson-Ampaw, GMB	The Local Pension Board Employer Member	Union Rep				✓	✓					
Richard Elliott	The Local Pension Board Employee Member	Employer Rep		✓	✓	✓	✓				✓	✓
Jolyon Roberts	The Local Pension Board Employee Member	Academies/Schools Employers				✓	✓					
Teresa Fritz	The Local Pension Board Employee Member	Employee Rep		✓	✓	✓	✓				✓	✓
James Haywood	The Local Pension Board Employee Member	Legal Rep		✓	✓	✓	✓				✓	✓

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

4G, 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

APPENDIX C

REPORT TO:	LOCAL PENSION BOARD 7 July 2016
AGENDA ITEM:	
SUBJECT:	Local Pension Board Survey
LEAD OFFICER:	Richard Simpson, Deputy Chief Executive and section 151 Officer
LEAD MEMBER:	Councillor Andrew Pelling, Chair of Pension Committee
PERSON LEADING AT THE BOARD MEETING:	Nigel Cool Head of Pensions and Treasury

1. EXECUTIVE SUMMARY

- 1.1 The Chartered Institute of Public Finance and Accounting (CIPFA) has commissioned a survey, to establish a picture of how the Local Pension Boards (LPB) have been implemented around the country and the progress so far.

2. REPORT

- 2.1 CIPFA are trying to build up a picture around the implementation of LPB at the end of one year. They have collected some very basic data from 59 local authorities on the progress so far.
- 2.2 The results are in Appendix A of this report. The information collated will assist CIPFA in their discussions at a Workshop in early July Meeting the Challenge of Good Governance.

3. RECOMMENDATIONS

- 3.1 The Board are asked to note the contents of the report

CONTACT OFFICER:

James Haywood,
Members Services Manager
020 8726 6000 x63319

ATTACHMENTS:

Appendix A: Summary Results from Local Pension Board Survey

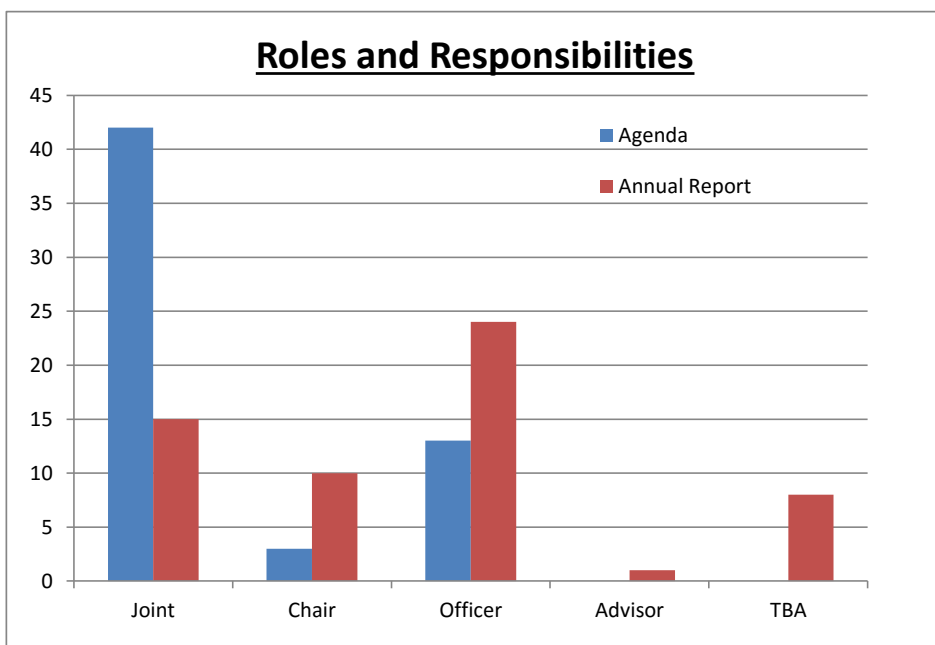
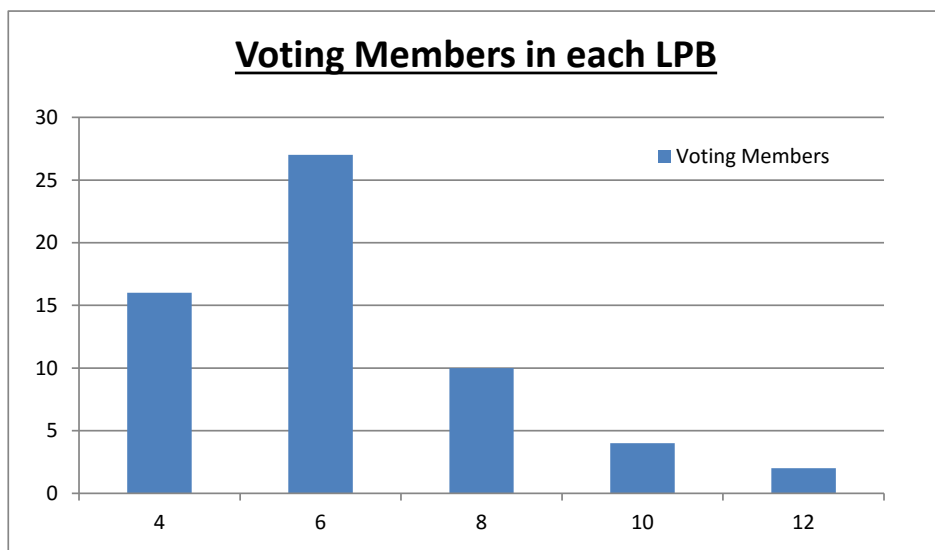
Summary Results from Local Pension Board Survey

APPENDIX C

Number of Responses	59
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Average number of Board Meetings were held in 15/16?	3.0
Average number of Board Meetings planned for 16/17?	3.4

	Yes	No	Partly
Does the Board have an Independent Chair?	23	36	
Are meetings of LPB open to the public?	36	7	14
Were any Board meetings in 15/16 not Quorate?	2	56	
Have any Board members resigned or left already?	22	37	
How many?	26		
Can Board Chair attend Committee/ Panel meetings as an observer?	57	1	
Do they?	47	11	
Can Committee/ Panel Chair attend LPB meetings as an observer?	55	3	
Do they?	17	41	



Croydon Council

REPORT TO:	PENSION COMMITTEE 18 October 2016
AGENDA ITEM:	8
SUBJECT:	Risk Register and Forward Plan
LEAD OFFICER:	Richard Simpson Executive Director of Resources
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: Ensuring that the pension fund is being given appropriate guidance and direction through the governance of the Pension Committee.	
FINANCIAL SUMMARY: There are no direct financial consequences to this report. However the implications of decisions taken by this Committee can be significant for the Revenue Account of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS
1.1 That the Committee note and comment on the current Pension Fund risk register.

2 EXECUTIVE SUMMARY

- 2.1 It is recommended best practice for the Pension Committee to maintain a risk register. This report presents the current risk register for the Committee's consideration.
- 2.2 It is recommended best practice for the Pension Committee (the Committee) to regularly review the forward plan. This report proposes a revised 2016/2017 forward plan which forms a business plan for the Committee.

3 DETAIL

Risk Register

- 3.1 Best practice recommends that a risk register is maintained by the Pension Committee recording all relevant risk scenarios, together with an assessment of their likelihood and impact and the appropriate mitigations. This report provides the Committee with a report covering risks relating to governance, funding, assets and liabilities, and operational risks.
- 3.2 The Committee is invited to comment upon whether it considers this list sufficiently exhaustive, whether the assessment of each risk matches its perception and to comment on the adequacy of future and existing controls.
- 3.3 The risk register will be reviewed periodically and brought back to the Committee for its consideration twice each year – the register was most recently reviewed in March 2016. Members will be familiar with the corporate risk register: this Pension Fund risk register is distinct from that document and an innovation in that previously the Committee has not had the opportunity to formally track risks relating to the Fund and Scheme in such a comprehensive manner.

Forward Plan

- 3.4 The forward plan below sets out an agenda for each quarterly meeting to be held in 2016/2017; however, further items may be added as required by senior officers in consultation with the Chair. There may be a need to add items in response to changing circumstances, such as any issues thrown up by the government's decision to require funds to pool assets, changes to the investment regulations or if there are further global market events requiring actions from the Committee. There will be occasions when the Committee will want to visit fund managers to discuss performance issues or other matters of concern: this will be driven by issues flagged up by the quarterly performance reporting. The Committee has committed to a programme of training and in part, this can be delivered by sessions following on from the business part of the meeting. The content of training will be informed by the direction of future legislation; the outcome of the review of the investment strategy and the choice of investment vehicles.
- 3.5 With the advent of the Local Pensions Board, some issues that previously were considered by the Committee could be addressed by that body. This might include matters relating to stock ownership, such as reporting and engagement on ESG (Ethical, Social and Governance) issues, assessment of the performance of professional advisors, and consideration of Myners principles.

3.6 Matters relating to admission agreements, schools converting to academies and other scheme employers will be reported on an ad hoc basis. The Committee undertakes a great deal of work outside of the regular, scheduled meetings. This activity includes visits to the fund managers who are responsible for investing the assets of the Pension Fund; interviewing potential new managers to better understand their approach to investment; and a number of structured training events, conferences and seminars.

The Pension Committee 2016-2017 Business Plan (*New items are in italics*)

3.6.1 October 2016 Meeting (Reporting on the June quarter performance):

- Progress Report (quarterly monitoring).
- Draft Annual Report - including review of SIP and FSS or successor statements, subject to consultation.
- ~~External Auditors Report.~~ (*Due to the rescheduling of this Committee this report was presented to the General Purposes and Audit Committee to meet the statutory deadline*)
- ***Triennial Actuarial valuation results modelling.***
- Risk Register.
- Local Pension Board Annual Report.

3.6.2 December 2016 Meeting (Reporting on the September quarter performance):

- Progress Report (quarterly monitoring).
- Review of provision of professional services by framework agreements.
- Communication of draft employer funding positions and contribution rates from Scheme Actuary.
- ***Whole Fund actuarial valuation results, and approach to setting individual employer contribution rates approved in principle.***
- ***Review London CIV against Investment Strategy Statement (ISS) guidance (regulation 7 (2) (d)).***
- ***Review of ESG investment principles for inclusion in ISS.***
- Other Business.

3.6.3 March 2017 Meeting (Reporting on the December quarter performance):

- Progress Report (quarterly monitoring).
- Final Funding Strategy Statement, actuarial valuation results and contribution rates approved by Committee.
- Risk Register.
- 2017/2018 Pensions Committee Forward Plan.
- Update on the work of the Local Pension Board.
- ***Consideration and adoption of the Investment Strategy Statement.***

3.7 For Members' information Committee dates for the next annual cycle will be:

6th June, 2017;
19th September 2017;
5th December, 2017; and
13th March, 2018.

3.8 This forward plan forms the business plan for the Committee. The Committee are asked to consider any changes necessary to the forward plan and subject to these, agree its adoption.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 Acting Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within this report

(Approved for and on behalf of Jacqueline Harris-Baker, Acting Council Solicitor and Acting Monitoring Officer:)

7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains confidential information which could be of a sensitive nature, disclosure of which could prejudice the commercial interest of the companies involved and those of the Council's Pension Fund.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Corporate Resources Department, ext. 62552.

APPENDIX A:

Pensions Risk Register

APPENDIX A

Risk Scenario	Assigned to	Existing Controls	Current Risk Rating			Future controls	Future risk rating		
			Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
Governance Risks									
Those charged with governance of the Fund are unable to carry out their responsibilities effectively.	Nigel Cook	The Pension Fund Committee is a properly constituted Committee of the Council and is supported by an Investment adviser, Actuary and suitably qualified officers. Proper advice is sought to support all decisions.	4	1	4	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	4	1	4
Employers becoming insolvent or being abolished with insufficient funds to meet liabilities.	Freda Townsend	Employers contributions are monitored on a monthly basis and non payment of contributions are escalated.	3	5	15	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk.	3	4	12
Inadequate investment and actuarial advice is available to the Pension Fund Committee.	Nigel Cook	Aon Hewitt are appointed as our actuarial advisers and Hymans Robertson are our Actuaries. Officers have significant experience within the investment arena.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
Failure to keep adequate financial records.	Matthew Hallett	Properly qualified and trained staff are employed with ongoing training via written guidance, networks, professional press and attendance at seminars. Accounting transactions is maintained on Oracle and regular reconciliations take place. Investments accounting is performed by our custodian and monitored monthly in-house . External audit review annually.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
Officers do not have sufficient knowledge and experience to advise the Committee and manage the fund.	Nigel Cook	Suitably qualified staff are appointed. Continuous professional development is carried out by all officers through attending internal and external training, networking with colleagues in other funds and technical reading. Training and development forms part of the appraisal process.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
Failure to adhere to relevant statutory regulations including updates from LGPS.	Nigel Cook	Investment and Administration sections review DCLG website, other literature and have networking arrangements to ensure they remain up-to date. Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme. Membership of relevant professional groups ensures any potential changes in statutory requirements are properly implemented.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3

Non-compliance with LGPS investment regulations.	Matthew Hallett	Statement of Invest Principles and investment manager mandates are structured to ensure compliance. Managers are monitored on an ongoing basis and investment holdings are reported to Pensions Committee quarterly.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
Funding - Assets and Liabilities									
Pension Fund Objectives are not defined and agreed.	Nigel Cook	Objectives are defined in the Funding Strategy Statement which is reviewed by Committee on a regular basis.	3	1	3	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	1	3
The funds assets are not sufficient to meet its liabilities.	Nigel Cook	A formal actuarial valuation is carried out every three years which ensures monitoring of the funding level. The Funding Strategy Statement is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years. Although this needs to be done efficiently and in a cost effective manner.	4	2	8
Pay and price inflation is higher than assumed in the valuation.	Nigel Cook	Assumptions revised as part of the actuarial valuation. The Fund's investment strategy includes investments with inflation linked returns to offer some protection.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	3	9
Increased longevity of pension fund members.	Nigel Cook	Longevity assumptions revised as part of the actuarial valuation based on ongoing experience.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	3	9
Other demographic factors change.	Nigel Cook	Assumptions revised as part of the actuarial valuation.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	3	9
Increase in number of early retirements due to service reductions and or ill-health.	Freda Townsend	Employers are charged the cost to the fund of early retirements and employers have to use the Council's occupational health providers in order to grant ill-health.	3	3	9	Redirect the cost of ill-health retirements to the individual employer.	2	3	6
Changes to the tax regime, including changes to the annual and lifetime allowance and abolition of tax relief on lump sum.	Nigel Cook	There are few options available to mitigate this risk.	2	4	8	There are few options available to mitigate this risk.	2	4	8
Insufficient cash to meet short term and medium term liabilities.	Matthew Hallett	The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and Officers monitor the cashflow carefully on a monthly basis.	3	4	12	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives and are in the process of amending the current policy of reinvesting dividend income to make up the shortfall.	3	2	6

There is a current risk that academies are not abiding by their statutory responsibilities as Scheme employers. This involves not transmitting information about staff, which means that pension benefits cannot be calculated, and not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Freda Townsend	The authority has retained legal advisors to mitigate this risk, possibly through legal channels.	3	5	15	This is likely to be an issue requiring attention for some time.	3	2	6
Investment Risks									
The Pension Committee has completed a review of the Fund asset allocation strategy. There is a risk that the long term investment strategy that has been adapted will prove to be inappropriate if the underlying assumptions about macro-economic factors and the performance of certain asset classes under certain scenarios change.	Matthew Hallett	The Fund uses a specialist investment adviser to assist in setting the investment strategy that will have a high probability of achieving full funding over a given time period. Performance of investments is monitored and reported to Committee quarterly.	4	2	8	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16. Due to the current funding level of the Fund the risk factor remains high.	4	2	8
There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternates - which potentially leaves the Fund exposed to the possibility that class of assets will underperform relative to expectation.	Matthew Hallett	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class does not significantly effect the performance of the overall portfolio, if it underperforms relative to expectation. It is recognised that the portfolio is currently overweight equities.	4	4	16	A new asset allocation was agreed in September 2015 and Officers are working on moving towards that allocation to remove the current overweight position towards equities.	5	2	10
In response to the requirement to pool LGPS assets Croydon has opted to join the London group and invest in certain assets through the London CIV. As this is an untried investment route there are inevitably risks and areas of uncertainty.	Nigel Cook	Extensive due diligence has been undertaken by the consultants involved in establishing the CIV.	5	3	15	As a second wave investor the Pension Fund will have the opportunity to learn from others' experiences. Progress towards funding the CIV will be carefully monitored.	5	2	10
General fall in investment markets and continued lower expectation of returns.	Matthew Hallett	The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations.	4	3	12	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18	4	3	12

Most fund managers have developed investment philosophies, styles or models that are unique to that house. These provide the investor with different investment characteristics: down side protection; up-side capture; longer investment horizons and so forth. Apart from the risk of investing in an appropriate asset class for a given set of circumstances, there is a risk that the investment style might fail to achieve targeted returns.	Matthew Hallett	Performance of fund managers is ongoing and reported to Committee on a quarterly basis. Investment advisers give their ratings on the Funds managers. Any concerns are brought to the attention of the Committee and an appropriate course of action is decided.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	3	9
With the introduction of the concept of regional asset pools the government will be formally monitoring costs relating to the administration of the LGPS; investment fees; and costs relating to governance. This gives rise to the risk that peer-comparisons will cause pressure to be applied to the authority to address costs.	Matthew Hallett	Fees are under constant review and the use of frameworks and collaborated negotiation is used to negotiate attractive fee rates.	2	3	6	Extended collaboration in the form of investment pooling will be used to negotiate further improved fee rates.	3	2	6
Security of Fund Assets.	Matthew Hallett	The Fund employees BNYM as the custodian. Officers monitor the holding of assets by the custodian versus the fund managers on a monthly basis. Officers receive audit reports on internal controls for Fund managers to gain assurance that funds are safe guarded.	4	1	4	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	4	1	4
There are a number of issues around Brexit. The most immediate relate to a fall in the value of sterling, slow-down in growth of the UK economy and passporting issues for fund managers based in the UK.	Matthew Hallett	Fund managers have invested considerable resources modelling the impact of Brexit and planning their responses.	3	3	9	Existing controls will be refined and the current consensus is that potential opportunities at least are equivalent to risks.	3	2	6
There is a risk that, because of a lack of detailed procedure notes, investments are not made within the LGPS regulatory framework, i.e. there is a risk that they are ultra vires.	Matthew Hallett	The Pension Fund team have sufficient professional qualification, experience, and access to suitably qualified advisors and proper advice to make sound decisions.	4	1	4	Existing controls are sufficient to control this risk.	4	1	4
Accuracy of asset valuations.	Matthew Hallett	Officers ensure that appropriate pricing sources are used to value the liquid assets and ensure that the valuations of alternative assets are in accordance with industry practice and are externally audited.	3	2	6	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18.	3	2	6

Operational Risks									
Major emergency or failure.	Nigel Cook	Business Continuity Plan in Place.	4	1	4	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	4	1	4
Failure of Pensions Administration IT system.	Nigel Cook	Pensions administration system is hosted externally by our providers Heywood. System is backed up every day. Heywoods is the leading pensions administration provide to the LGPS.	5	1	5	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	5	1	5
System and data security.	Nigel Cook	Authentication controls including regular password changes and robust user administration procedures are in place. Access rights are restricted. System is protected against viruses and other system threats. Staff are aware that the Council is particularly exposed to data protection risks and adopt a robust data protection policy.	5	2	10	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	5	2	10
Failure to comply with LGPS pensions benefits regulations.	Nigel Cook	Administration procedures for key processes are documented and reviewed periodically to ensure they are still relevant. Internal and external audit review internal controls.	4	2	8	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	4	2	8
Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with scheme rules.	Nigel Cook	Designated resource to monitor receipt and recording of contributions. Non payment of contributions is reported to the Pensions Regulator.	2	5	10	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	2	5	10
Accuracy of data on pensions administration system.	Nigel Cook	Business processes are in place to identify changes to standing data. Records are supported by appropriate documentation. Reconciliations are carried out between input and source records.	4	2	8	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	4	2	8
Employer's failure to carry out their responsibilities for scheme administration.	Nigel Cook	Regular communication and guidance offered to employers in particular through staff visits and the employers forum. Pensions administration strategy sets out employer obligations.	3	3	9	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	3	9
Failure by AVC provider to provide proper services to the pension fund.	Nigel Cook	Regular reviews undertaken.	3	2	6	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	2	6
The Council's scheme of financial delegation does not adequately reflect the requirements of administering the Fund.	Nigel Cook	The scheme of financial delegation will be reviewed.	3	1	3	Once a review has been completed this risk will be resolved.	1	1	1

Loss of pensions knowledge due to staff departures	Nigel Cook	Pensions team is adequately resourced and balanced with appropriately qualified staff. Succession plan exists and ongoing training is given to enhance knowledge of current staff.	3	2	6	Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/16.	3	2	6
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Croydon Council

REPORT TO:	PENSION COMMITTEE 18 October 2016
AGENDA ITEM:	9
SUBJECT:	Section 13 Report
LEAD OFFICER:	Richard Simpson Executive Director of Resources
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report considers the Government's approach to assessing governance risk in relation to the administration of the LGPS.	
FINANCIAL SUMMARY: There are no financial implications as this is a historic analysis of the actuarial valuation of the Croydon Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS
1.1 The Committee are asked to consider and note the contents of this report.

2 EXECUTIVE SUMMARY

2.1 Section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved by the triennial actuarial valuation. These aims are:

- **Compliance:** whether the fund's valuation is in accordance with the scheme regulations;
- **Consistency:** whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS;
- **Solvency:** whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund; and

- **Long term cost efficiency:** whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

2.2 The Government Actuary's Department have carried out a "dry run" section 13 analysis based on the 2013 local valuations. At the national level, across the Local Government Pension Scheme in England and Wales, the analysis found:

- **Compliance:** no evidence of material non-compliance.
- **Consistency:** inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.
- **Solvency:** the analysis commented upon the two closed schemes and a number of amber flags were raised for the open funds: none were red-flagged. An amber flag was raised for this scheme, as the funding level at 2013, under common assumptions, was 72%.
- **Long term cost efficiency:** the analysis highlighted two funds that they would have engaged with to determine whether the aims of section 13 were met. The Department also suggested that they might also have engaged with some other administering authorities who had a significant combination of amber flags if section 13 had applied as at 31 March 2013.

2.3 Looking forward the Department indicated that they may change or add considerations, criteria, tests or metrics to the analysis in the future.

3 DETAIL

3.1 The Government Actuary's Department (GAD) have completed a "dry run" section 13 analysis based on the 2013 local valuations. This analysis assesses whether the four main aims; compliance, consistency, solvency and long term cost effectiveness; have been achieved.

3.2 The Government Actuary has been appointed by the Department of Communities and Local Government to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme ("LGPS" or "the Scheme") in England and Wales. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where scheme managers consider appropriate.

3.3 Section 13 will apply for the first time to the 2016 round of ninety-one separate fund valuations for the LGPS. Specifically, in relation to each fund within the LGPS, section 13 requires the Government Actuary to report on whether four main aims are achieved:

- **Compliance:** whether the fund's valuation is in accordance with the scheme regulations;
- **Consistency:** whether the fund's valuation has been carried out in a way

which is not inconsistent with the other fund valuations within the LGPS;

- **Solvency:** whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund;
- **Long term cost efficiency:** whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

3.4 The dry run report is designed to help those administering authorities and their actuarial advisors to prepare for the 2016 round of valuations with some knowledge about how GAD might approach reporting under section 13 following the 2016 round of valuations. Based on GAD's on-going experience of reporting under section 13(4) they may change or add considerations, criteria, tests or metrics to the analysis in the future.

3.5 GAD's report included the following findings:

Compliance: no evidence of non-compliance with the scheme regulations.

Consistency: found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

Solvency: the two closed schemes were referenced and a number of amber flags were raised under solvency for the open funds. Had section 13 applied, GAD may have engaged with some of these administering authorities, particularly where there was significant combination of amber flags, to discuss reasons behind these flags. However, none were red-flagged.

Long term cost efficiency: for two funds GAD would have engaged with the administering authority to investigate whether the aims of section 13 were met, had section 13 applied.

3.6 Although this report is useful in that it provides stakeholders with information about the tests and metrics used to assess whether the aims of compliance, consistency, solvency and long term cost efficiency have been achieved; an indication of how funds performed against the chosen metrics; and how GAD determined exceptions, it does not help with understanding at what level the hurdles would be set for amber and red flags.

3.7 The Croydon scheme was given one amber flag, under solvency measures. The ten funds with the lowest funding level on the Scheme Advisory Board (SAB) standardised basis were flagged. GAD recognises that whilst being poorly funded is not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, GAD may nevertheless have engaged with a number of these funds to better understand how they intend to improve their funding position. The report emphasises that it is important that administering authorities and other employers understand the potential variability of contributions, so that they can understand the affordability of providing LGPS benefits to their employees.

3.8 Members should note that flagging the bottom ten funds in terms of adjusted funded level is a crude measure. Further, this refers to the situation in 2013 and does not look at the longer term picture, which is characterized by risk-adjusted increases to

contributions, close focus on affordability and steady, consistent growth in the value of assets.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 There are no financial implications as this is a historic analysis of the actuarial valuation of the Croydon Fund.

6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Acting Solicitor to the Council comments that there are no direct legal implications arising as a result of the recommendations within this report

(Approved for and on behalf of Jacqueline Harris-Baker, Acting Council Solicitor and Acting Monitoring Officer)

7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report considers matters that have been publicly disclosed.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Corporate Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None

Croydon Council

REPORT TO:	PENSION COMMITTEE 18 October 2016
AGENDA ITEM:	10
SUBJECT:	Progress Report for Quarter Ended 30 June 2016
LEAD OFFICER:	Richard Simpson Executive Director of Resources
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT:	
Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.	
FINANCIAL SUMMARY:	
This report shows that the market value of the Pension Fund (the Fund) investments as at 30 June 2016 was £915m compared to £863.2m at 31 March 2016, an increase of £51.8m, equivalent to 5.9% over the quarter. The performance figures in this report have been compiled from data provided by each fund manager and are quoted net of fees. Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor AON Hewitt.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS
1.1 The Committee are asked to consider and note the contents of this report.
1.2 The Committee is asked to agree that the delegation to select fund managers granted to the Assistant Chief Executive (Corporate Resources & s151 Officer) in consultation with the Chair of the Pension Committee on 8 September 2015 (Minute A29/15 refers), should henceforth refer to the Executive Director of Resources following a change in title of the Assistant Chief Executive

2 EXECUTIVE SUMMARY

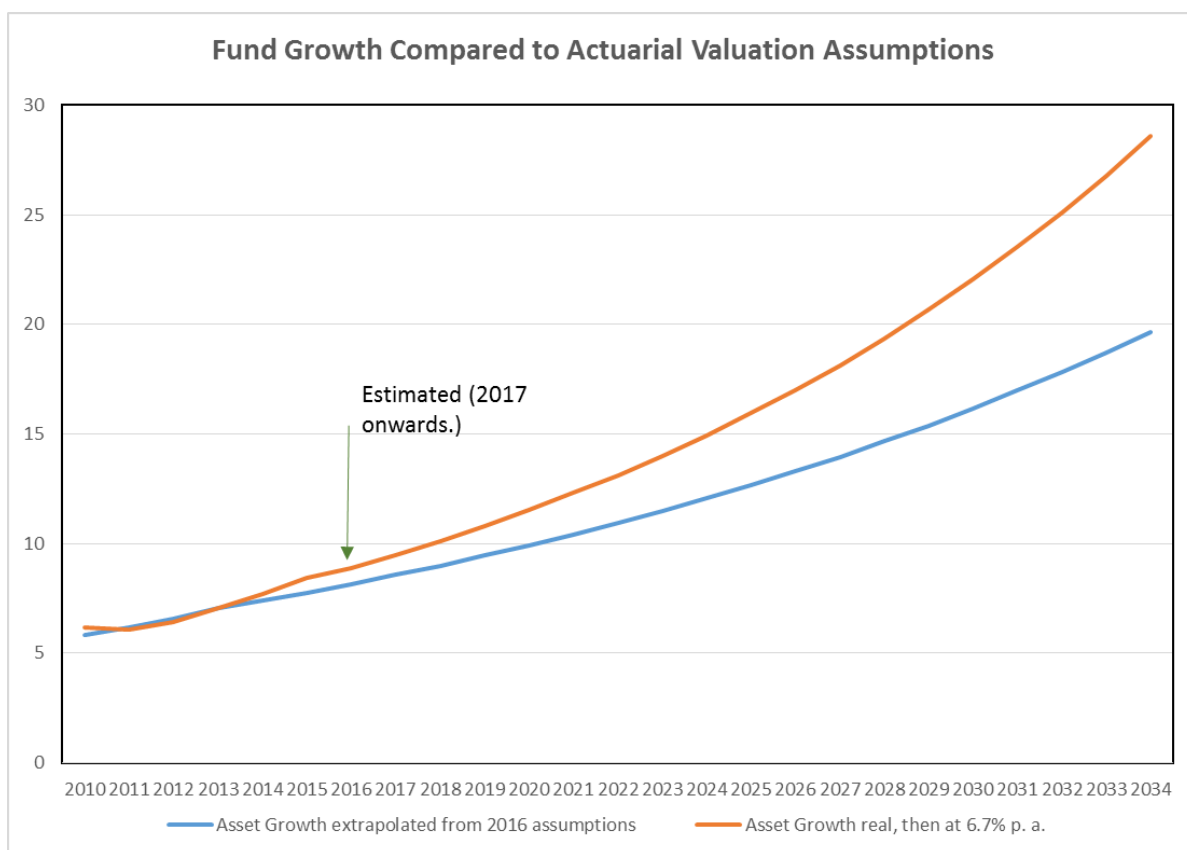
- 2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 30 June 2016. This report represents a break from the earlier established format; with the introduction of regional pools focus will, in the longer run, shift away from individual fund manager's performance. At the same time the previous arrangements for generating independent performance monitoring metrics have ended. These twin developments offer an opportunity that allows the Committee to scrutinise more efficiently the effectiveness of strategic policy decisions in ensuring that the Croydon Fund generates sufficient returns so that, when contributions are taken into account, it is sufficient to pay out pension scheme entitlements. With less focus required on individual fund's performance, the Committee can invest more attention towards how to address risks jeopardising this outcome.
- 2.2 The report thus falls into three parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied. The third and final section deals with risk management. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report for readers who are interested in that deeper analysis.

3 DETAIL

Section 1: Performance

- 3.1 The investments comprising the Croydon Fund are expected to outperform gilt yields by 2%. This target, established by the 2013 Actuarial Valuation, is set out in the Funding Strategy Statement (FSS) adopted by this Committee 8 July 2014 (Minute A18/14). This will be revised by the 2016 Triennial Actuarial Valuation which is currently being undertaken and which has agreed upon an asset outperformance assumption of 2.2% over gilts (gilt yield being assessed by the market as being 4.5%), currently equivalent to 6.7% in total. At the time of the 2013 valuation the asset outperformance assumption had increased from the figure set in 2010 because of two factors: the Fund's high allocation to return seeking assets and the Fund's view that gilt markets at the valuation date were temporarily depressed by the Government's quantitative easing programme. Both of these factors are still applicable. The assumption at the time of the 2013 valuation was that gilt yields would be 3% so the real expected return, otherwise described as the discount rate, was 5%. That valuation also assumed that the funding gap would be closed over a 22 year period. However, as a risk based model has been adopted, the recovery period is less critical.
- 3.2 The following graph has been compiled from this information. The blue line shows the expected track of the value of assets growing in line with the FSS assumptions. This will be adjusted in the light of the 2016 and subsequent valuations. The orange line shows the actual value of the Fund to date and plots the course of growth over subsequent years using the same assumptions. This is a simplistic measure of the success of the strategy which does not take account of other variables, such as changes in demographic factors, wage inflation forecasts and other assumptions and that does not reflect changes in cash contributions nor movements in the gilt yield

curve. However it is valuable as a tool to help track whether the direction of travel is in the right direction.



3.3 Details of the performance of individual components of the portfolio are summarised in Appendix A. As the portfolio has been built on the premise that diversification mitigates the impact of return volatility, the performance of individual investments is less important than the return of the Fund in aggregate and certainly cannot be assessed over less than a full cycle, and the duration of the cycle will vary from asset to asset.

Section 2: Asset Allocation Strategy

3.4 A new asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute .A29/15 refers). Recognising that there are a number of factors dictating the delivery timeframe for the asset allocation, namely: the selection process and time taken to undertake due diligence; the revision of the LGPS investment regulations; and the role of the London CIV; delivering the revised asset allocation remains a work in progress.

3.5 This asset allocation will give rise to a portfolio which can be broken down as follows:

Equities including allocation to emerging markets.	42%	+/- 5%
Fixed interest	23%	+/- 5%
Alternates	34%	+/- 5%
<i>Comprised of:</i>		
Private Equity	8%	
Infrastructure	10%	
Traditional Property	10%	
PRS	6%	
Cash		1%
		100%

3.6 Progress towards revised asset allocation

3.6.1 **Private Equity** - During the quarter the Fund signed up to a \$25m commitment with Markham Rae Trade Capital Partners and it is anticipated that a third of this will be drawn by the scheme year end. The Fund has also agreed a further commitment of €20m (subject to satisfactory Legal review of contract documentation and due diligence) to another Private Equity fund. £4.5m was drawn by our existing private equity managers meaning the allocation increased from 6.1% to 7.5% over the quarter and we are expecting the 8% allocation to be filled by the scheme year end.

Allocation: on target.

3.6.2 **Infrastructure** – During the quarter £2.3m was drawn by existing infrastructure managers increasing the allocation from 4.5% to 5%. At the time of writing this report the Fund had signed up to a commitment of £25m to The Green Investment Bank Offshore Wind Fund and officers are expecting the majority of our commitment to be drawn soon. Officers are also looking at two other opportunities which will enable the Fund to meet the target asset allocation.

Allocation: on target.

3.6.3 **Traditional Property** – The target allocation has been met and officers are expecting this level of investment to continue as Schroder, the Fund’s property manager reinvests the income generated by the current portfolio of assets.

Allocation: achieved target level.

3.6.4 **Private Rental Sector** - The Fund signed a commitment of £25m to the M&G UK Residential Fund in January 2016 and the Fund has now reached the front of the queue for draw downs (this fund was heavily over-subscribed). At the time of writing this report £5.1m had been drawn and we are expecting our full commitment to this fund to be drawn by the end of the scheme year. We are currently exploring options with the London CIV in order to fill the rest of the allocation.

Allocation: on target.

The table below illustrates the movement in the Fund’s valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 30 June 2016

	Valuation at 31/03/2016 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 30/06/2016 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					56.9%	42%
Legal & General World DB	61,962	- 15,000	4,183	51,145		
Legal & General FTSE4Good	438,802	-	31,059	469,861		
Fixed Interest					20.4%	23%
Standard Life	121,355	-	2,812	124,167		
Wellington	59,124	-	3,524	62,648		
Infrastructure					5.0%	10%
Temporis	5,684	1,719	- 95	7,308		
Equitix	32,988	606	4,795	38,389		
Private Equity					7.5%	8%
Knightsbridge	14,337	654	801	15,792		
Pantheon	40,750	1,420	5,741	47,911		
Access	1,579	2,462	651	4,692		
Property					10.2%	10%
Schroders	95,732	-	- 2,323	93,409		
Property PRS					0.0%	6%
M&G						
Cash					0.0%	1%
Cash	- 3,212	3,103	-	109		
Fund Total	869,101	- 5,036	51,147	915,212	100%	100%

- 3.7 Including commitments made before the beginning of the year a further £164 million will be invested in private equity, infrastructure and property funds. This will be funded by cash from a combination of employer contributions, dividends paid in cash and cash disinvested from the equity portfolio. Depending on the opportunities identified by fund managers these sums may be drawn down over a period of several years. It should be noted that, even after the cash invested in equities but earmarked for other investments is invested, the portfolio will be over-weight in the equity asset class. This will be corrected over a period of time as investment opportunities in infrastructure and private rental sector funds are identified.
- 3.8 Members should note that at present, none of these investments feature on the London CIV's project plan to establish sub-funds and accommodate transferred investments. Nevertheless one of the core objectives for the pooling project has been achieved as the London CIV has negotiated a significant discount for equity fees.
- 3.9 Members' attention is drawn to the relative performance of equities compared with property. As the impact of Brexit worked its way through the markets, the fall in the value of Sterling gave a lift to equities whilst property was quite severely marked down. Thus the strategy of diversification across asset classes protected the portfolio from excess volatility and provided a degree of downside protection.

Section 3: Risk Management

- 3.10 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. Dependent upon that are of course a number of issues.
- 3.11 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class,

investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.

- 3.12 In terms of the Pension Fund investment strategy in relation to the global picture, officers believe:
- The domestic US economy will continue to grow at a healthy rate and the outcome of the presidential election will not have a lasting impact on this outlook.
 - China will also continue to demonstrate strong growth and this will be critical in stoking the continued expansion of emerging markets. By and large emerging market revenue account issues have been resolved.
 - There remain concerns about the European economy, especially around German and Italian banks and the unresolved Euro question.
- 3.13 However there are equally many opportunities that can be exploited by very focused fund managers. The wave of elections culminating in the German Chancellor in October 2017 will create conditions of volatility that can be opportunities to capture returns.
- 3.14 The role of Central Banks in guiding local economies and that specific impact on the global economy remains an area for concern. Interest rates and inflation both represent significant headwinds impacting on the valuation of liabilities and the investments designed to match them.
- 3.15 Concentration risk is a particular concern, especially considering the extent to which the Fund is over-weight in equities. 9% of the value of the portfolio is invested in the top 10 stocks and arguably these are heavily correlated.
- 3.16 The portfolio term Brexit encompasses a number of risks. Immediate concerns that the UK economy would register a shock have not materialised. The fall in the relative value of sterling has masked a long term issue around productivity and actually benefitted the portfolio. Other concerns may manifest themselves in the future. One issue that seems certain to impact the fund is that of passporting and the cost of accessing investment opportunities. Although it is unlikely that performance will suffer there is a greater risk that costs, incurred by fund managers, as a function of being a custodian, and officer time, will increase. It is unlikely that these costs could be mitigated by negotiation or the use of pooling arrangements.
- 3.17 AON Hewitt, the Fund's investment advisor, have drafted a Manager Monitoring Report, a Market Review for the 3 months to 31 March 2016 and a Quarterly Investment Outlook which provides context for this risk analysis. These reports are included in the closed part of this Committee agenda.

Governance

- 3.18 Due to an internal restructure within the Council and an alteration in job title the Committee is asked to note and agree that the delegation to select fund managers granted to the Assistant Chief Executive (Corporate Resources & s151 Officer) in

consultation with the Chair of the Pension Committee, should henceforth refer to the Executive Director of Resources.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Acting Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within this report.

(Approved for and on behalf of Jacqueline Harris-Baker, Acting Council Solicitor and Acting Monitoring Officer)

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Corporate Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

Quarterly reports from each fund manager (circulated under separate cover)

APPENDICES:

Appendix A: Fund Returns

The following appendices are commercially sensitive:

Appendix B: AON Hewitt Manager Monitoring Report

Appendix C: AON Hewitt Market Review: 3 months to 31 March 2016

Appendix D: AON Hewitt Quarterly Investment Outlook

Appendix A

London Borough of Croydon fund returns for the period ending 30 June 2016

EQUITIES					
L&G FTSE 4GOOD	Quarter	1 year	3 year	5yr	inception
Fund	7.1%	11.7%			2.2%
Benchmark	7.1%	12.0%			2.2%
L&G World Index	Quarter	1 year	3 year	5yr	inception
Fund	8.7%	14.5%			12.4%
Benchmark	8.7%	14.6%			12.5%
FIXED INTEREST					
Standard Life	Quarter	1 year	3 year	5yr	inception
Fund	2.7%	4.9%	4.4%	5.0%	5.1%
Benchmark	2.3%	5.7%	5.0%	5.2%	5.4%
Wellington	Quarter	1 year	3 year	5yr	inception
Fund	6.0%	12.8%	8.1%	8.1%	7.9%
Benchmark	5.8%	12.6%	8.2%	7.8%	7.4%
INFRASTRUCTURE					
Equitix	Quarter	1 year	3 year	5yr	inception
Fund	9.4%	13.0%	3.9%	12.9%	11.7%
Benchmark	1.3%	5.5%	5.8%	6.5%	#REF!
Temporis	Quarter	1 year	3 year	5yr	inception
Fund	-1.70%				-1.70%
Benchmark	1.34%				1.34%
PRIVATE EQUITY					
Knightsbridge	Quarter	1 year	3 year	5yr	inception
Fund	5.6%	21.9%	22.8%	12.0%	9.8%
Benchmark	1.3%	5.5%	5.8%	6.5%	7.0%
Pantheon	Quarter	1 year	3 year	5yr	inception
Fund	13.9%	24.7%	11.8%	10.5%	10.5%
Benchmark	1.3%	5.5%	5.8%	6.5%	7.2%
Access	Quarter	1 year	3 year	5yr	inception
Fund	41.2%				41.2%
Benchmark	1.3%				1.3%
PROPERTY					
Schroders	Quarter	1 year	3 year	5yr	inception
Fund	0.4%	8.0%	14.2%		12.0%
Benchmark	0.1%	7.2%	12.5%		10.2%
Total Fund					
	Quarter	1 year	3 year	5yr	inception
Fund	5.91%	11.02%	9.29%	7.76%	7.82%
CPI + 4%	1.10%	4.46%	4.77%	5.53%	6.31%

Returns are net of fees and annualised apart from for the last quarter

All returns are calculated on a time weighted basis.

The mid market value is used for the Schroders returns