

Croydon Pension Fund 2018/19

31st March 2019

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Independent auditor's report to the members of the London Borough of Croydon on the Pension Fund Financial Statements of the London Borough of Croydon Pension Fund

Opinion

We have audited the financial statements of the London Borough of Croydon Pension Fund (the 'pension fund') administered by the London Borough of Croydon (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you **where:**

- the Director of Finance, Investment and Risk and Interim Section 151 Officer's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Finance, Investment and Risk and Interim Section 151 Officer has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information

The Director of Finance, Investment and Risk and Interim Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance, Investment and Risk and Interim Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 4, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance, Investment and Risk and Interim Section 151 Officer. The Director of Finance, Investment and Risk and Interim Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Finance, Investment and Risk and Interim Section 151 Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The General Purposes and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

Sarah L Ironmonger

Sarah Ironmonger, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London
31 July 2019

PENSION FUND ACCOUNTS

FUND ACCOUNT

Dealings with members, employers and others directly involved in the fund

Contributions
Individual Transfers in from Other Pension Funds

Benefits

Pensions
Commutation, Lump Sum Retirement and Death Benefits

Payments to and on Account of Leavers

Individual Transfers Out to Other Pension Funds
Refunds to Members Leaving Service

Net additions/(withdrawals) from dealings with members

Management Expenses

RETURNS ON INVESTMENTS

Investment Income
Taxes on Income (Irrecoverable Withholding Tax)
Profit and loss on disposal of investments and changes in the market value of investments

Net returns on investments

Net increase in the Fund during the year

Net assets at the start of the year

Net assets at the end of the year

Notes	2018/19 £'000	2017/18 £'000
8	47,808	44,178
	11,584	7,880
	59,392	52,058
9	(43,431)	(42,381)
9	(8,923)	(7,908)
	(5,445)	(4,783)
	(349)	(139)
	(58,148)	(55,211)
	1,244	(3,153)
10	(8,167)	(6,845)
	(6,923)	(9,998)
11	5,469	13,022
11	(1)	(361)
13	120,171	32,725
	125,639	45,386
	118,716	35,388
	1,139,443	1,104,055
	1,258,159	1,139,443

PENSION FUND ACCOUNTS

NET ASSETS STATEMENT

Investments held by the Fund Managers:

Equities - segregated funds
 Equities - pooled funds
 Private equity funds
 Infrastructure funds
 Fixed Interest funds
 Pooled Property funds

Total Investments held by the Fund Managers

Other Balances held by the Fund Managers

Cash held by the Fund Managers
 Investment income due

Total Other Balances held by the Fund Managers

Total Assets held by the Fund Managers

Current Assets

Current Liabilities

Net Assets of the fund available to fund benefits

Notes	31 March 2019 £'000	31 March 2018 £'000
13	150	150
13	516,037	578,812
13	114,703	95,253
13	145,358	113,728
13	282,419	192,407
13	178,566	134,352
	1,237,233	1,114,702
13	6,452	8,603
13	1,557	1,465
	8,009	10,068
	1,245,242	1,124,770
16	15,064	21,432
17	(2,147)	(6,759)
	1,258,159	1,139,443

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial position of the fund which does take into account such obligations is dealt with in note 22.

1. GENERAL INFORMATION

In addition to acting as a Local Authority, Croydon Council administers the Local Government Pension Scheme. As a Local Authority it is accountable to the residents of the London Borough of Croydon for its stewardship of public funds. As an administering authority for the LGPS it is accountable both to 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 as a supplementary statement to clearly demonstrate the distinction.

The London Borough of Croydon Pension Fund (the Fund) operates a contributory Career Average Revalued Earnings (CARE) scheme whose purpose is to provide benefits to all of the Council's employees, with the exception of teaching and NHS staff, and to the employees of admitted and scheduled bodies who are members of the Fund. These benefits include retirement pensions and lump sums, ill-health retirement benefits 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. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013, (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The financial statements have been prepared in accordance with the 2018/19 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.

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

Admitted:

AXIS Europe plc (Housing Repairs), Brick by Brick Croydon Limited, Capita Secure Information Solutions Limited, Conway Construction & Training Ltd, Churchill Services Limited, Croydon Citizen's Advice Bureau, Croydon Equipment Services Limited, Croydon Community Mediation, Croydon Voluntary Action, Kier Highways Limited, Ground Control Limited, Impact Group Limited, Keyring Living Support Networks, London Hire Services Limited, Octavo Partnership Limited, Hats Group Ltd, Quadron Services Limited, Olive Dining Limited Limited, Roman Catholic Archdiocese of Southwark, Skanska Construction UK Limited, Sodexo Limited, Veolia Environmental Services (UK) Recycling Limited (Croydon), Vinci Facilities Limited, Veolia Environmental Services (UK) Recycling Limited (SLWP1) & (SLWP2), Wallington Cars & Couriers Limited, Westgate Cleaning Services Limited, Arthur Mckay Limited, Greenwich Leisure Limited, Idverde Limited

Scheduled:

Meridian (Addington) High Academy, Aerodrome Primary Academy, Applegarth Academy, The Archbishop Lanfranc School, ARK Oval Primary Academy, Atwood Primary School, BRIT School, Broadmead Primary Academy, Castle Hill Academy, Chesnut Park Primary School, Chipstead Valley Primary School, Coulsdon College, Crescent Primary Academy, Croydon College, David Livingstone Academy, Orchard Park High School, Fairchildes Academy Community Trust, Forest Academy, Gonville Academy, Good Shepherd Catholic Primary, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Purley Way) 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, Oasis Academy Byron, Oasis Academy Arena, Oasis Academy Coulsdon, Oasis Academy Ryelands, Oasis Academy Shirley Park, Pegasus Academy Trust, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Rowdown Primary School, Shirley High School Performing Arts College, South Norwood Academy, St Chad's Catholic Primary School, Davidson Primary Academy, Krishna Avanti Primary School, 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, The Woodside Academy, Kingsley Primary Croydon, STEP Academy Trust, St Aidans Catholic Primary, Kingsley Primary Academy, Folio Education Trust, Coombe Wood, Courtwood Primary, Monks Orchard Primary, Keston Primary, Glibert Scott, Manor Trust

1. GENERAL INFORMATION (continued)

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 pensioner representatives (one voting), and a non-voting employee representative. In addition, the Committee is supported by officers and external advisors.

2. INVESTMENT STRATEGY STATEMENT

This is published on the Croydon Pension Scheme web page
<http://www.croydonpensionscheme.org/croydon-pension-fund/about-us/forms-and-publications>

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.

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 gives administering authorities the option to disclose information about retirement benefits by reference to the actuarial report. Note 22 refers.

Note 1 (general information) above refers to the International Financial Reporting Standards applicable to this set of accounts. There are no standards issued that have not been adopted in preparation of this statement of accounts.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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

A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. The majority of the Fund's financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. Any gains and losses arising from changes in the fair value are recognised in the change in market value in the Fund Account.

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 Funds, Infrastructure Funds and Pooled Property Funds are quoted by their fund managers.

Loans and receivables consist of cash at bank, other balances investment balances and contributions receivable. They are initially recognised at fair value and subsequently at amortised cost. Impairment losses are recognised where appropriate, although no impairment has been deemed necessary.

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 term 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (see Note 22).

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 plc 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 21).

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 22. 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 £194m. A 0.5% increase in the salary increase assumption would result in a £22m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £162m increase to the pension liability.

Unquoted private equity and infrastructure investments

Due to the nature of private equity and infrastructure assets it is difficult to assess their true value until the assets are realised. Assumptions are made in the valuation of Unquoted private equities and infrastructure investments. Investment managers use the guidelines published by various bodies including the Financial Accounting Standards Board, the British Venture Capital Association and the Institutional Limited Partners Association. The value of unquoted private equities and infrastructure at 31 March 2019 was £260m (2018: £209m). There is a risk that these investments may be under or overstated in the accounts, although it is considered unlikely to have a material impact on the value of the Fund.

NOTES TO THE PENSION FUND ACCOUNTS

7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 2016 which calculated the total accrued liabilities to be £1,203m (2013: £1,064m). The market value of the Fund's assets at the valuation date was £877m (2013: £705m). The Fund deficit was therefore £326m (2013: £359m) producing a funding level of 73% (2013: 66.3%). The next triennial valuation will be effective as at 1 April 2020.

In accordance with new Regulations and CIPFA guidance, a primary rate and secondary rate is set for the Whole Fund. The Primary Rate is the payroll weighted average of the underlying individual employer Primary Rates and the Secondary Rate is the total of the underlying individual employer Secondary Rates (before any pre-payment or capitalisation of future contributions).

The table below shows the Primary and Secondary contribution rates for the 2016 valuation:

Primary rate (%)	Secondary Rate (£)		
1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
17.9%	£10,321,000	£10,401,000	£11,805,000

	Contribution rate required as a percentage of pay (Primary Rate from 2017/18)		Plus Additional Payment (Secondary rate from 2017/18)	
	2018/19 % of pay	2019/20 % of pay	2018/19 £'000	2019/20 £'000%
London Borough of Croydon Pool				
London Borough of Croydon	17.6	17.6	-2.5%	-1.5%
Octavo Partnership Limited	16.6	16.6	-1.5%	-0.5%
Further Education Bodies				
Croydon College	17.1	17.5	660	793
Coulsdon College	18.3	18.3	58	60
John Ruskin College	18.1	18.1	84	87
(Community) Admission Bodies				
Croydon Voluntary Action	18.9	18.9	37	38
Croydon Citizens Advice Bureau	30.6	30.6	6	6
Croydon Community Mediation	18.0	18.0	4	4
Admission Bodies				
Kier Highways Limited	27.2	27.2	-20.4%	-20.4%
Impact Group Limited	30.1	30.1	-10.5%	-10.5%
London Hire Services Limited	28.6	28.6	-9.4%	-9.4%
Churchill Services Limited	28.4	28.4	-8.7%	-8.7%
Veolia Environmental Services (UK) Recycling Limited (Croydon)	26	26	-4.3%	-4.3%
Fusion Lifestyle	23.6	23.6	-1.1%	-1.1%
Hats Group Ltd	29.8	29.8		
Wallington Cars & Couriers Limited	29	29	-13.5%	-13.5%
Vinci Facilities Limited	32.3	32.3	-32.3%	-32.3%
Skanska Construction UK Limited	31.6	31.6	-10.4%	-10.4%
Sodexo Limited	29.9	29.9	-14.9%	-14.9%
Ground Control Limited	22.2	22.2	-22.2%	-22.2%
Carillion Integrated Services Limited	29	29	-8.3%	-8.3%
Quadron Services Limited	27.3	27.3	-0.2%	-0.2%
AXIS Europe plc (Housing Repairs)	27.5	27.5	-2.0%	-2.0%
Capita Secure Information Solutions Limited	28	28.0	-3.4%	-3.4%
Keyring Living Support Networks	29.4	29.4	-0.8%	-0.8%
Westgate Cleaning Services Limited	30	30.0	-	-
Veolia Environmental Services (UK) Recycling Limited (SLWP1)	25.4	25.4	-9.9%	-9.9%
Roman Catholic Archdiocese of Southwark	31.4	31.4	4	-

* The London Borough of Croydon paid a lump sum of £33,192,000 to the Fund during 16/17. This payment was sufficient to meet in full the monetary elements of £11,795,000 p.a. that were due as the Secondary Rates over three years.

NOTES TO THE PENSION FUND ACCOUNTS

	Contribution rate required as a percentage of pay (Primary Rate)		Plus Additional Payment (Secondary Rate)	
	2018/19	2019/20	2018/19	2019/20
	% of pay	% of pay	£'000	£'000 /%
Academies				
Harris Academy (South Norwood)	16.8	16.8	11	12
BRIT School	16.6	16.6	22	22
Harris City Academy (Crystal Palace)	15.4	15.4	-0.2%	-0.2%
St Joseph's College	18.7	18.7	31	32
St Cyprian's Greek Orthodox Primary School	18.7	18.7	7	7
Norbury Manor Business and Enterprise College	18.2	18.2	29	29
Woodcote High School	18.8	18.8	39	40
St James the Great R.C Primary	20.0	20.0	40	41
Meridian (Addington) High Academy	18.5	18.5	29	29
Riddlesdown Collegiate	18.1	18.1	55	57
Shirley High School of Performing Arts College	18.3	18.3	33	34
Oasis Academy Byron	18.7	18.7	8	8
Robert Fitzroy Academy	15.5	15.5	0.3	0.3
St Thomas Becket RC Primary	19.6	19.6	14	15
Aerodome Primary Academy	17.7	17.7	12	12
Oasis Academy Coulsdon	18.0	18.0	47	48
Oasis Academy Shirley Park	18.0	18.0	81	83
Harris Academy (Purley)	17.3	17.3	35	35
The Quest Academy	17.4	17.4	32	33
ARK Oval Primary Academy	18.2	18.2	2	2
Pegasus Academy Trust	17.2	17.2	51	52
Gonville Academy	18.4	18.4	12	12
West Thornton Primary Academy	18.1	18.1	26	26
David Livingstone Academy	18.0	18.0	-0.8%	-0.8%
Applegarth Academy	18.2	18.2	11	11
Harris Primary Academy Benson	19.9	19.9	21	22
Harris Academy Primary Kenley	18.5	18.5	7	7
Forest Academy	18.1	18.1	9	9
Castle Hill Academy	18.5	18.5	17	18
Wolsey Junior Academy	18.1	18.1	23	24
Atwood Primary School	19.1	19.1	20	21
Winterbourne Junior Boys	19.8	19.8	18	19
Oasis Academy Ryelands	18.1	18.1	31	32
Chipstead Valley Primary School	18.7	18.7	30	31
Fairchildes Primary School	17.8	17.8	59	61
Broadmead Primary Academy	18.1	18.1	55	56
Rowdown Primary School	18.9	18.9	19	19
St Mark's COE Primary School	17.8	17.8	11	11
New Valley Primary	18.5	18.5	10	10
Archbishop Lanfranc School	19.4	19.4	104	107
Harris Invictus Academy Croydon	17.4	17.4	-	-
Harris Primary Academy Haling Park	16.0	16.0	-0.8%	-0.8%
Paxton Academy	15.7	15.7	-0.7%	-0.7%
Edenham High School	18.6	18.6	114	117
St Mary's Infants School	19.1	19.1	34	34
St Mary's Junior School	18.5	18.5	16	16
Heathfield Academy	16.8	16.8	-	-
Crescent Primary Academy	16.6	16.6	16	16
Oasis Academy Arena	15.9	15.9	2	2
Good Shepherd Catholic Primary	17.5	17.5	29	30
South Norwood Academy	17.9	17.9	36	37
Chesnut Park Primary School	15.9	15.9	-	-
St Chad's Catholic Primary School	26.9	26.9	45	46
St Aidan's Catholic Primary School	23.2	23.2	14	15
Davidson Primary School	26.0	26.0	44	46
Krishna Avanti Primary School	19.1	19.1	-	-
The Woodside Academy	29.4	29.4	-	-
Kingsley Primary Croydon	19.2	19.2	75	75
STEP Academy Trust	18.3	18.3	-	-

NOTES TO THE PENSION FUND ACCOUNTS

Employees in the scheme are required by the Local Government Pension Scheme Transitional Regulations 2014 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 for 2018/19 are detailed below:

Band	2018/19 Range £	Contribution Rate %
1	0 -14,100	5.5%
2	14,101-22,000	5.8%
3	22,001-35,700	6.5%
4	35,701-45,200	6.8%
5	45,201-63,100	8.5%
6	63,101-89,400	9.9%
7	89,401-105,200	10.5%
8	105,201-157,800	11.4%
9	157,801+	12.5%

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

	2018/19	2017/18	% change
Contributing members	9,811	9,670	1.5%
Deferred pensioners	10,936	9,463	15.6%
Pensioners	7,903	7,492	5.5%
Total	28,650	26,625	7.6%

8. CONTRIBUTIONS

By Authority:

Administering Authority
Scheduled bodies
Admitted bodies

2018/19 £'000	2017/18 £'000
29,591	26,570
14,242	12,915
3,975	4,693
47,808	44,178

By Type

Employees normal contributions

Employers:

Normal contributions
Deficit recovery contributions
Augmentation contributions

2018/19 £'000	2017/18 £'000
12,746	12,038
30,679	29,132
2,488	2,253
1,895	755
47,808	44,178

9. BENEFITS

Pensions
Commutation and lump sum retirement benefits
Lump sum death benefits

2018/19 £'000	2017/18 £'000
43,431	42,381
8,248	6,731
675	1,177
52,354	50,289

NOTES TO THE PENSION FUND ACCOUNTS

10. MANAGEMENT EXPENSES

	2018/19 £'000	2017/18 £'000
Administration	1,083	1,417
Oversight and Governance	674	669
Investment management	6,410	4,759
	8,167	6,845

Included in oversight and governance expenses is £16,170 (2018: £21,000) in respect of audit fees. Some investment managers charge fees within the fund's net asset value and these (implicit) fees are not easily identifiable. Investment management fees have been adjusted to reflect the implicit fees charged by managers and a corresponding adjustment has been made to the change in market value. For 2019 the implicit fee was £5,776,000 (2018: £4,027,000) Included in the investment management expenses are 108,000 (2018: £286,000) in respect of transaction costs.

11. INVESTMENT INCOME

	2018/19 £'000	2017/18 £'000
Equity dividends- segregated funds	(6)	9,143
Pooled Equity Income	152	-
Pooled Fixed Income	206	-
Pooled Property funds income	5,048	3,842
Interest on cash deposits	69	37
Total before taxes	5,469	13,022
Taxes on income	(1)	(361)
Total	5,468	12,661

12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	Legal and General Investment Management Limited (LGIM) and London LGPS CIV Limited underlying manager Henderson Golbal Investors (LCIV Henderson)
Private equity	Knightsbridge Advisors LLC, Pantheon Ventures LLP, Access Capital Partners and North Sea Capital
Infrastructure	Equitix Limited, Temporis Capital Limited and Green Investment Group Management Limited (GIGM), Access Capital Partners, I-Squared Capital
Fixed Interest	Aberdeen Standard Investments, Wellington Management Company LLP and London LGPS CIV Limited underlying manager PIMCO (LCIV PIMCO)
Property	Schroder Investment Management Limited and M&G Investment Management Limited
Cash	Cash is invested by the in-house team

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 Executive Director of Resources 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 market value and proportion of investments managed by each fund manager at 31 March 2019 was as follows

	2019		2018	
	Market £'000	Market %	Market £'000	Market %
LGIM	457,993	37.0%	578,812	51.9%
London LGPS CIV Limited (LCIV)	150	0.0%	150	0.0%
LCIV PIMCO	84,066	6.8%	-	----
LCIV Janus Henderson	58,044	4.7%	-	----
Pantheon Ventures LLP (Pantheon)	66,559	5.4%	61,780	5.5%
Knightsbridge Advisors LLC (Knightsbridge)	30,692	2.5%	20,929	1.9%
Access Capital Partners (Access)	28,095	2.3%	22,160	2.0%
North Sea Capital	3,069	0.2%	781	0.1%
I-Squared Capital	7,132	0.6%	-	----
Equitix Limited	65,140	5.3%	57,488	5.2%
Temporis Capital Limited (Temporis)	34,367	2.8%	20,678	1.9%
Green Investment Bank (GIGM)	25,007	2.0%	25,165	2.3%
Aberdeen Standard Investments (Aberdeen)	131,228	10.6%	128,715	11.5%
Wellington Management Company LLP (Wellington)	67,125	5.4%	63,692	5.7%
Schroder Investment Management Limited (Schroders)	118,321	9.6%	109,123	9.8%
M&G Investment Management Limited (M&G)	60,245	4.9%	25,229	2.3%
Total investments	1,237,233	100.0%	1,114,702	100.0%

NOTES TO THE PENSION FUND ACCOUNTS

13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2018	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Equities - segregated funds	150				150
Equities - pooled funds	578,812	119,902	(251,204)	68,527	516,037
Private equity	95,253	14,160	(17,343)	22,633	114,703
Infrastructure	113,728	28,837	(13,034)	15,827	145,358
Fixed Interest	192,407	80,264	(744)	10,492	282,419
Property	134,352	49,133	(7,585)	2,666	178,566
	1,114,702	292,296	(289,910)	120,145	1,237,233
Cash deposits	8,603			26	6,452
Investment income due	1,465				1,557
Net investment assets	1,124,770	292,296	(289,910)	120,171	1,245,242

	Market value 01 April 2017	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Equities - segregated funds	575,427	242,260	(840,365)	22,828	150
Equities - pooled funds	----	596,372	(110)	(17,450)	578,812
Private equity	92,584	14,905	(19,473)	7,237	95,253
Infrastructure	83,247	29,851	(9,925)	10,555	113,728
Fixed Interest	191,155	50,059	(50,710)	1,903	192,407
Property	103,621	30,586	(7,312)	7,457	134,352
Derivatives	152	0	(785)	633	-
	1,046,186	964,033	(928,680)	33,163	1,114,702
Cash deposits	17,460			(438)	8,603
Investment income due	2,738				1,465
Amounts payable for purchases	(41)				-
Net investment assets	1,066,343	964,033	(928,680)	32,725	1,124,770

NOTES TO THE PENSION FUND ACCOUNTS

14. ANALYSIS OF INVESTMENTS

	2019			2018		
	UK £'000	Foreign £'000	Total £'000	UK £'000	Foreign £'000	Total £'000
Equities-segregated funds						
London CIV Unquoted	150		150	150	-	150
Total equities	150	-	150	150	-	150
Global equities - pooled funds						
LGIM unit trust		457,993	457,993	-	578,812	578,812
Emerging market equities - pooled funds						
LCIV Janus Henderson managed fund		58,044	58,044	-	-	-
Total pooled investments	-	516,037	516,037	-	578,812	578,812
Private Equity						
Pantheon managed fund		66,559	66,559	-	61,780	61,780
Knightsbridge managed fund		30,692	30,692	-	20,929	20,929
Access managed fund		14,383	14,383	-	11,763	11,763
North Sea Capital managed fund		3,069	3,069	-	781	781
Total private equity	-	114,703	114,703	-	95,253	95,253
Infrastructure						
Equitix Limited managed fund	65,140		65,140	57,488	-	57,488
Temporis managed fund	34,367		34,367	20,678	-	20,678
GIGM managed fund	25,007		25,007	25,165	-	25,165
Access managed fund		13,712	13,712	-	10,397	10,397
I Squared managed fund		7,132	7,132	-	-	-
Total Infrastructure	124,514	20,844	145,358	103,331	10,397	113,728
Fixed Interest						
Aberdeen unit trust	131,228		131,228	128,715	-	128,715
Wellington managed fund		67,125	67,125	-	63,692	63,692
LCIV PIMCO managed fund		84,066	84,066	-	-	-
Total Fixed Interest	131,228	151,191	282,419	128,715	63,692	192,407
Property						
Schroders managed fund	118,321		118,321	109,123	-	109,123
M&G managed fund	60,245		60,245	25,229	-	25,229
Total Property	178,566	-	178,566	134,352	-	134,352
Total investments	434,458	802,775	1,237,233	366,548	748,154	1,114,702

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

	2019		2018	
	Market £'000	% of Total Net assets	Market £'000	% of Total Net assets
Standard Life SLI Absolute Return Global Bond Strategies	66,221	5.3%	65,971	5.8%
Standard Life Corporate Bond	65,007	5.2%	62,744	5.5%
Wellington Sterling Core Bond Plus Portfolio	67,125	5.3%	63,692	5.6%
LCIV PIMCO Global Bond Fund	84,066	6.7%	-	0.0%
LGIM FTSE Ex Tobacco World Equity Index	457,993	36.4%	578,812	50.8%

NOTES TO THE PENSION FUND ACCOUNTS

16. CURRENT ASSETS

	2019 £'000	2018 £'000
Cash balances	5,528	17,380
Other Local Authorities - Croydon Council	6,245	1,585
Other Entities and Individuals	3,291	2,467
	15,064	21,432

17. CURRENT LIABILITIES

	2019 £'000	2018 £'000
Other Local Authorities - Croydon Council	(862)	(5,666)
Other entities and individuals	(1,285)	(1,093)
	(2,147)	(6,759)

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.

18. 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

Councillor Hall, the Vice Chair of the Pensions Committee is the Council Shareholder Representative for the London LGPS CIV Limited and is a member of the London Councils Pensions CIV Sectoral Joint Committee.

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 during the year were the Executive Director of Resources (Section 151 Officer) to 28 February 2019, the Director of Finance, Investment and Risk (Interim Section 151 Officer) and the Head of Pensions and Treasury.

During the year a charge of £125k (2018: £125k) 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 2018/19.

19. 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.

20. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £93.9m at 31 March 2019 (2018:£170.4m) based on:

USD 66.0m at exchange rate 1.30 equals £50.7m (2018: £62.0m)
EUR 40.8m at exchange rate 1.16 equals £35.1m (2018: £43.8m)
GBP £8.1m (2018: £64.6m)

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.

21. 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 £172,000 for 2018/19 (£220,700 in 2017/18), are sent directly to the relevant AVC provider.

The value at 31 March 2019 of separately invested additional voluntary contributions was £1.81m (£1.86m in 2017/18).

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS**London Borough of Croydon Pension Fund ('the Fund') Actuarial Statement for 2018/19**

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- ▶ to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- ▶ to ensure that employer contribution rates are reasonably stable where appropriate;
- ▶ to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- ▶ to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- ▶ to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 22 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 70% chance that the Fund will return to full funding over 22 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £877 million, were sufficient to meet 73% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £326 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

NOTES TO THE PENSION FUND ACCOUNTS

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 Mar 2016
Discount rate	4.4%
Salary increase assumption	2.7%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 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 as follows:

	Males	Females
Current Pensioners	22.3 years	24.4 years
Future Pensioners*	24.0 years	26.2 years

*Aged 45 at the 2016 Valuation

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Robert McInroy
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 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. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Croydon Pension Fund ('the Fund').

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.

Present value of promised retirement benefits

Year ended	31 Mar 2019 £m	31 Mar 2018 £m
Active members	853	705
Deferred members	486	446
Pensioners	683	688
Present Value of Promised Retirement Benefits*	2,022	1,839

**Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation.*

The promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £107m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial Assumptions

Year ended	31 Mar 2019 %p.a.	31 Mar 2018 %p.a.
Pensions Increase Rate	2.5%	2.4%
Salary Increase Rate	3.0%	2.9%
Discount Rate	2.4%	2.6%

Longevity Assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 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 (assumed to be age 45 at the latest formal	24.0 years	26.2 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation Assumptions

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.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% increase in pensions increase rate	8%	162
0.5% increase in salary increase rate	1%	22
0.5% decrease in the discount rate	10%	194

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional Notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting 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.

Prepared by:-

Robert McInroy FFA

16 May 2019

For and on behalf of Hymans Robertson LLP

23. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

24. FINANCIAL INSTRUMENTS

Below is the target asset allocation agreed by Pension Committee and in force during 2018/19

Asset Class	Benchmark	Weighting
UK and Overseas Listed Equities	FTSE 4 Good	42% + / - 5%
Fixed Interest Securities	18% Bank of America Merrill Lynch Sterling non gilts all stocks index 12% Bank of America 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

24. 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 by category and Net Assets Statement heading. The carrying value for Pension Funds is the same as the Fair Value.

31 March 2019

	Designated as fair value through profit and loss £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	282,419	-	-
Equities - segregated funds	150	-	-
Pooled property funds	178,566	-	-
Private equity funds	114,703	-	-
Infrastructure funds	145,358	-	-
Global equities - pooled investments	516,037	-	-
Other investment balances	-	8,009	-
Current Assets	-	15,064	-
Total Financial Assets	1,237,233	23,073	-
Financial Liabilities			
Current liabilities	-	-	(2,147)
Total Financial Liabilities	-	-	(2,147)
Net Assets	1,237,233	23,073	(2,147)

31 March 2018

	Designated as fair value through profit and loss £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	192,407	-	-
Equities - segregated funds	150	-	-
Pooled property investments	134,352	-	-
Private equity funds	95,253	-	-
Infrastructure funds	113,728	-	-
Global equities - pooled investments	578,812	-	-
Other investment balances	-	10,068	-
Current Assets	-	21,432	-
Total Financial Assets	1,114,702	31,500	-
Financial Liabilities			
Current liabilities	-	-	(6,759)
Total Financial Liabilities	-	-	(6,759)
Net Assets	1,114,702	31,500	(6,759)

24. FINANCIAL INSTRUMENTS (Continued)

Net Gains and Losses on Financial Instruments

	31 March 2019	31 March 2018
	£'000	£'000
Financial assets		
Designated at fair value through profit and loss	118,690	33,163
Financial assets at amortised cost	26	(438)
	118,716	32,725
Financial liabilities		
Designated at fair value through profit and loss	-	-
Financial liabilities at amortised cost	-	-
	-	-
Total	118,716	32,725

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 and quoted index linked securities.

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.

The pooled investment vehicles for global equities and fix interest funds are classified as Level 2 as the fund valuations are based on the market prices of the underlying investments using evaluated price feeds.

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, Private Equity Funds, Infrastructure Funds and Pooled Property Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

The General Partners use a variety of methods and assumptions based on market conditions existing at the statement of financial position date which is usually at the end of December. Valuations are then rolled forward to the 31 March.

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.

Valuations in Pooled Property Funds are carried out by qualified surveyors with relevant qualifications from the Royal Institute of Chartered Surveyors. All assets have been classified as level 3 as the inputs are considered to be unobservable and developed by the valuer using best information available where there is little or no market activity at the valuation date.

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.

NOTES TO THE PENSION FUND ACCOUNTS

24. FINANCIAL INSTRUMENTS (Continued)

Values at 31 March 2019

Financial Assets at fair value through profit and loss

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Fixed Interest funds		282,419		282,419
Global equities - segregated funds			150	150
Pooled property investments			178,566	178,566
Private equity funds			114,703	114,703
Infrastructure funds			145,358	145,358
Global equities - pooled investments		516,037		516,037

Financial Assets at amortised cost

Other investment balances	8,009			8,009
Current Assets	15,064			15,064

Total Assets

	23,073	798,456	438,777	1,260,306
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Financial Liabilities at amortised cost

Current liabilities	(2,147)	-	-	(2,147)
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Net financial assets

	20,926	798,456	438,777	1,258,159
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Values at 31 March 2018

Financial Assets at fair value through profit and loss

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Fixed Interest funds		192,407		192,407
Global equities - segregated funds			150	150
Pooled property funds			134,352	134,352
Private equity funds			95,253	95,253
Infrastructure funds			113,728	113,728
Global equities - pooled investments		578,812		578,812

Financial Assets at amortised cost

Other investment balances	10,068			10,068
Current Assets	21,432			21,432

Total Assets

	31,500	771,219	343,483	1,146,202
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Financial Liabilities at amortised cost

Current liabilities	(6,759)	-	-	(6,759)
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Net financial assets

	24,741	771,219	343,483	1,139,443
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NOTES TO THE PENSION FUND ACCOUNTS

24. FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Fair Value Measurements within Level 3 assets

2018/2019	Market value 01 April 2018 £'000	Transfers to Level 3 £'000	Transfers out of Level 3 £'000	Purchases £'000	Sales £'000	realised gains/losses £'000	Unrealised gains/losses £'000	Market value 31 March 2019 £'000
Private Equity Funds	95,253			14,160	(17,343)	17,343	5,290	114,703
Infrastructure Funds	113,728			28,837	(13,034)	13,034	2,793	145,358
Pooled Property Funds	134,352			49,133	(7,585)	7,585	- 4,919	178,566
Unquoted Equity	150							150
Total assets	343,483	----	----	92,130	(37,962)	37,962	3,164	438,777

2017/2018	Market value 01 April 2017 £'000	Transfers to Level 3 £'000	Transfers out of Level 3 £'000	Purchases £'000	Sales £'000	realised gains/losses £'000	Unrealised gains/losses £'000	Market value 31 March 2018 £'000
Private Equity Funds	92,584			14,905	(19,473)	19,473	(12,236)	95,253
Infrastructure Funds	83,247			29,851	(9,925)	9,925	630	113,728
Pooled Property Funds		103,621		30,586	(7,312)	-	7,457	134,352
Unquoted Equity		150						150
Total assets	175,831	103,771	----	75,342	(36,710)	29,398	(4,149)	343,483

In 2017/18 Pooled Property Funds and the unquoted equity were transferred from level 2 to 3 due to a reappraisal of the valuation techniques.

Sensitivity analysis of Level 3 assets

The bid/offer spread of 5% for Pooled Property Funds has been used as a proxy to measure the sensitivity for all level 3 assets.

Level 3 Asset	Market value 31 March 2019 £'000	Value on Increase £'000	Value on Decrease £'000
Private Equity Funds	114,703	120,438	108,968
Infrastructure Funds	145,358	152,626	138,090
Pooled Property Funds	178,566	187,494	169,638
Unquoted Equity	150	158	143
Total	438,777	460,716	416,838

25. 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. A risk register is maintained and reviewed bi-annually.

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.

Price risk

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.

Price risk - sensitivity analysis

The following table demonstrates the change in net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	Value £'000	Value on Increase £'000	Value on Decrease £'000
At 31 March 2018	1,106,620	1,217,282	995,958
At 31 March 2019	1,237,233	1,360,956	1,113,510

NOTES TO THE PENSION FUND ACCOUNTS

25. 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.

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.

Fixed interest funds, cash at bank and cash held by Fund managers are exposed to interest rate risk.

Assets exposed to interest rate risk	Value £'000	Value on Increase £'000	Value on Decrease £'000
At 31 March 2018	218,391	240,230	196,552
At 31 March 2019	294,399	323,839	264,959

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 (£GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than £GBP.

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.

Currency exposure - asset type

Overseas equities securities
 Overseas Private Equity and Infrastructure
 Overseas fixed interest
 Overseas Private Equity and Infrastructure (outstanding commitments)
 Total assets

Asset Value as at 31 March 2019 £'000
516,037
135,547
151,191
85,799
888,574

Currency risk - sensitivity analysis

The following table demonstrates the change in value of overseas assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value £'000	Value on 10% weakening of pound £'000	Value on 10% strengthening of pound £'000
At 31 March 2018	853,932	939,325	768,539
At 31 March 2019	888,574	977,431	799,717

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

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 2019 was £5.5m (£17.4m at 31 March 2018). This was held with the following institutions:

Summary	Rating at 31 March 2019	Balances as at 31 March 2019 £'000	Balances at 31 March 2018 £'000
Money Market Funds	AAA		
Goldman Sachs Sterling Liquid Reserves Fund		3,439	11,313
Current Account			
Royal Bank of Scotland		2,089	6,067
Total		5,528	17,380

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 2019 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.