2013/14 London Borough of Islington Pension Fund Annual Report

Table of contents

Foreword

Dear Pension Scheme Member

Welcome to the Islington Council pension fund annual report for the 2013/14 financial year.

In this report we set out the fund‘s recent performance and the activities undertaken to maximise the growth of the pension fund’s investments and stabilise contributions to the fund.

In the last 12 months equity markets recovered strongly and the value of our fund which is heavily weighted to equities increased from £918million in 2013 to £971million in 2014. The performance of our fund managers continues to improve with performance compared to quarterly benchmarks improving from -3.6% below benchmark in 2010 to 0.7% above benchmark in 2014. This is an improved position and we continue to review our strategy and challenge managers to outperform their targets.

The 2014 New LGPS scheme commenced on 1 April 2014.The governance and structure of the LGPS is still undergoing changes and DCLG have issued consultations to which we have presented our views. In particular, we have actively voiced our concerns on managing all assets types under common investment vehicles (CIV) or passively for the sole reason of reducing cost whilst not considering active and well performing Funds. It is our view that certain asset classes managed in CIV will be beneficial but that distinction needs to be made for individual funds taking into account their investment strategy on growth and liability matching assets. We are still awaiting the final regulations and guidance on the formation of local pension boards effective from 1 April 2015.

The 2013 triennial valuation was signed off by the Fund Actuary on 30 March 2014. Under this revaluation the Fund assets were valued at £919m and liabilities at £1,312m resulting in a funding level of 70%. Due to improvements in gilt yields as at 31 August 2013, the Council and employers have agreed with Actuary to build into the recovery plan over 22years some of this improvement to stabilise contribution requirements if appropriate hence minimizing the burden on the General Fund. The average employer contribution rate is 20.1%

The Pensions Sub-Committee takes its responsibilities as a company shareholder seriously and exercises its votes at company AGMs/EGMs wherever practically possible. The Fund’s corporate governance service provider is Pension Investments Research Consultants (PIRC) and votes cast at UK, European and North American company AGMs follow PIRC recommendations to challenge companies whose performance we believe needs to improve, for example on excessive executive pay. This year we have attended some AGM’s in the UK companies for example Barclays, National Express, Smith-Nephew, Rio Tinto, British Land, Vodafone and Betfair At these meetings we have questioned and challenged the company directors on issues such as labour relations, climate change and executive pay. We are actively involved in the Local Authorities Pension Fund Forum (LAPFF) which engages with individual companies and the Institutional Investors Group on Climate Change (IIGCC).

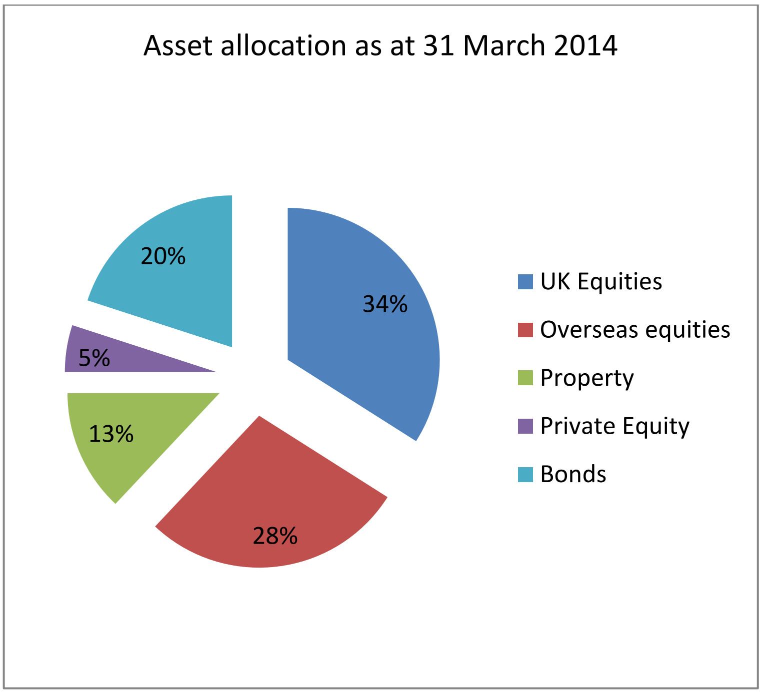
I would like to thank our in house pension administration staff, advisors and service providers for their support during the year.

Cllr Richard Greening
Chair of Pensions Sub-Committee

1: Investment report

The 2013/14 year saw developed equity markets perform strongly supported by good US and UK economic growth and monetary policies to maintain the momentum of recovery from the downturn that began in 2008. The global economy is expected to remain volatile with some Euro economies still in recession but growth expectations are positive.

During the year to 31 March 2014 the fund's asset allocation was as follows



The Fund's target strategic asset allocation is 60% equities, 25% bonds and 15% property. The annual performance of these assets over the last 3 years is shown in the table below.

Asset type	2014 market performance	2013 market performance	2012 market performance
Equities	8.4%	17.6%	-0.1%
Bonds	-1.6%	10.5%	12.7%
Property	1.4%	2.8%	5.5%

1.1. Fund manager performance (WM Performance Services)

The table below shows our portfolio fund managers' value of assets under management and their 12 month performance to 31 March 2014.

Manager	**Mandate**	**Market value £'000**	**12-month return %**
Islington Council Treasury team	UK equities	320,000	9.4
RCM	Overseas equities	84,740	6.6
Newton	Overseas equities	121,800	7.2
Legal and General	Overseas equities	68,200	-6.1
Standard Life	Corporate bonds	195,300	2.8
Aviva	Property	43,700	8.0
Threadneedle	Property	55,960	11.2
*Franklin Templeton	Property	8,700	1.9
Standard Life	Private equity	23,200	3.0
Pantheon	Private equity	20,200	14.4
BNY Mellon(1)	Cash deposits	9,100	n/a
Hearthstone	Property	20,800	6.3
Total Market Value		971,700	

* Franklin Templeton performance too early to monitor as not fully funded

(1) BNY Mellon hedge overseas equities holdings

Members will continue to take longer term views of the Fund's asset allocation and have agreed to invest around 10% of its equity allocation in Diversified Growth Funds.

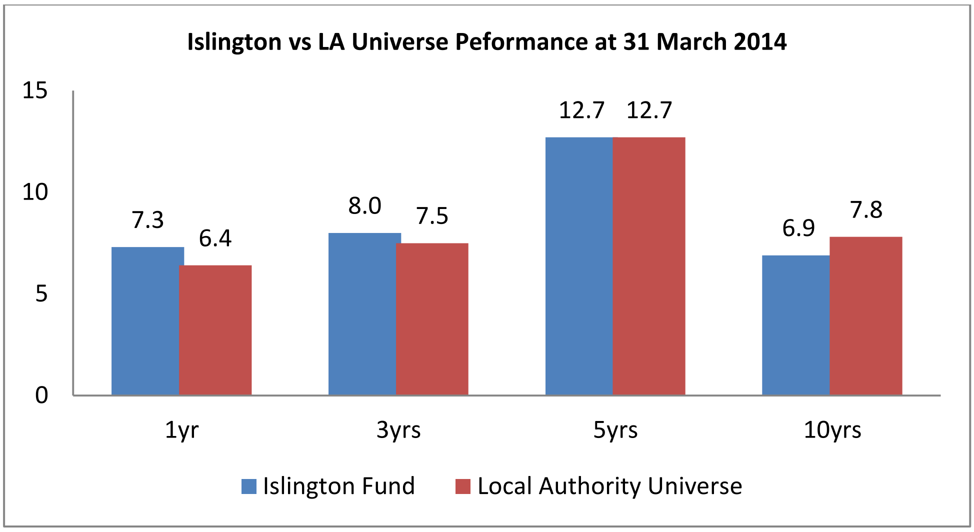
1.2. Long-term average returns

It is important to look at average performance over the longer term. The following table shows the average annual return achieved by the fund over one, three, five, ten and twenty years compared to its customised benchmark.

Period	1 year	3 year	5 year	10 year	20 year
Fund return per annum %	7.3	8.0	12.7	6.9	7.1
Benchmark%	6.5	8.1	13.6	7.8	7.1

Over the 20 year period the fund has returned 7.1% per annum in absolute terms.

The Islington Council pension fund also compares itself against its peers through the WM local authority universe. The graph below shows the pension fund compared to the average performance of the universe over the 1, 3, 5 and 10 year periods.



2: Business plan

The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. The Pensions Sub Committee agreed a four-year business plan to March 2015 in compliance with Myners Principle 1, 'Effective decision-making through a forward looking business plan'.

2.1 The key objectives of the four year business plan, last reviewed in June 2014 are:

- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund and pursue new investment opportunities

- To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members.

- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability.

- To actively monitor and challenge poor performance in managers and to pursue new investment opportunities

- To develop collaboration opportunities with other funds for sharing of services

2.2 Actions taken over the year include:

- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund and pursue new investment opportunities
  - 31 March 2013 actuarial completed and certified on 30/3/14
  - Members agreed in November to maintain split of 75% growth and 25% matching asset allocation
  - 10 % of the total fund is to invested in a Diversified growth fund(DGF)

- Signed up to use National custody framework.
- Also responded to Call for Evidence on LGPS merger of Fund and subsequent CIV consultation in September

➢ To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members
- Survey of satisfaction levels for active and newly retired over one year period from August 2013 was reported to Members in September. Results had a high level of satisfaction.
- Active members received their annual benefit statements (ABS) in June 2013 and deferred members in December 2013.
- Publicity and letters sent out on New LGPS was reported to Members in March 2014

➢ To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability.
- Continue to work with LAPFF and IIGCC
- Members have attended a number of AGMs of companies as shareholder to exercise our voting rights
- PIRC service provider presented our voting records at the 2013 AGM
- Members have sought Counsel advise on investors responsibilities in respect of SRI issues and a full report is to be discussed in September to update the Fund's SIP

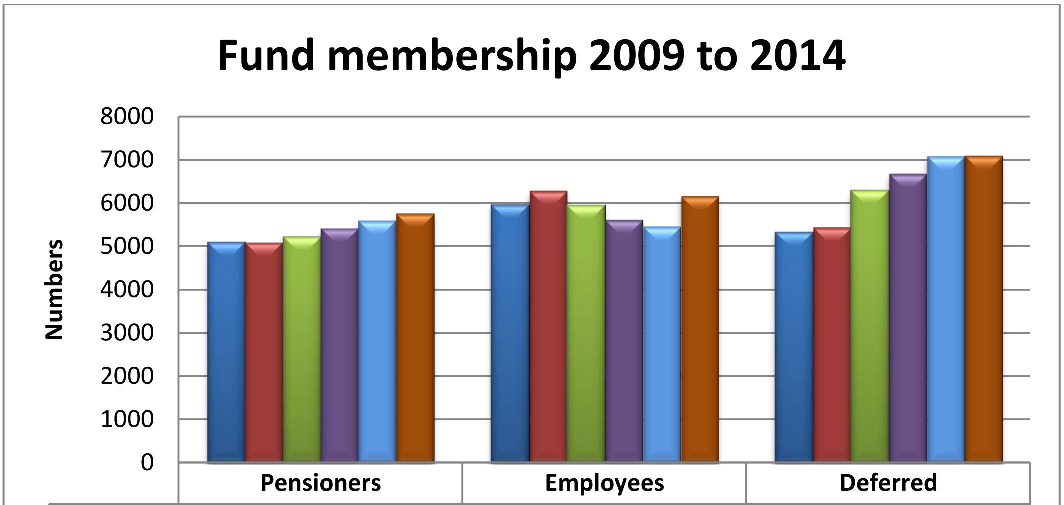
➢ To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
- The forward plan continues to schedule managers
- Members have received a number of reports on investment approaches and various training sessions.
- Members have received training sessions on Diversified Growth Funds and multi asset credits role in a portfolio to enable them to make asset allocation decision

➢ To develop collaboration opportunities with other funds for sharing of services
- Members have signed up to be a shareholder of the new London Collective Investment Vehicle (CIV) as an investment company for London Boroughs. The Chair of the Pensions Sub Committee will also sit on the new London Pensions CIV Joint Committee.

3: The local government pension scheme

3.1. Membership

The scheme membership continues to grow year on year, even though active employee numbers is beginning to fall to reflect the economic slowdown and budget savings. The profile from 2009 to 2014 is shown below.



	Pensioners	Employees	Deferred
2008/09	5104	5978	5341
2009/10	5091	6277	5428
2010/11	5227	5963	6305
2011/12	5415	5610	6665
2012/13	5592	5455	7072
2013/14	5754	6165	7086

The total membership over the same period is as follows:

March 2009	16,423
March 2010	16,796
March 2011	17,495
March 2012	17,690
March 2013	18,119
March 2014	19,005

3.2 Benefits

The LGPS is referred to as a ‘defined benefit’ scheme.

The Pension earned for any period before 1 April 2014 is calculated on the pensionable pay over the final 12 months (termed ‘final pay’) until the leaving/retiring date. For membership to 31 March 2008 the Pension calculation is final salary x years and days of service x 1/80, and for membership from 1 April 2008 to 31 March 2014 the Pension is final salary x years and days of service x 1/60.

For membership in respect of service from 1 April 2014 the Pension calculation is pensionable pay for each year thereafter x 1/49, with the Pension earned revalued annually to account for inflation. In respect of membership from April 2014 the LGPS is now a Career Average Revalued Earnings (‘CARE’) pension scheme.

The Pension calculation for a scheme member who joined the LGPS before 1 April 2008 will be the total for the three periods mentioned in the preceding paragraphs.

Since April 2014 there has been an option, for a limited period, of a half rate contribution and pension arrangement, but after the limited period re-enrolment in the full scheme would apply.

The LGPS is a ‘funded’ scheme, which means that the Council is required to maintain a separate pension fund comprising investments, from which benefits are paid. These investments provide the growth and income with which to pay the benefits.

The “defined benefits” are guaranteed and do not vary depending on investment performance, which means they are stable and more predictable for scheme members, who can plan their retirement around this security.

The core benefits of the scheme are:

- a guaranteed pension as explained above
- a tax free lump sum of three times the annual pension earned up until 31 March 2008
- life assurance cover of three times members’ yearly pay from the first day of joining the scheme
- a pension for spouses, Civil Partners, nominated co-habiting partners and children
- Pension entitlement paid early if a member has to stop work due to permanent ill health
- Pensions increases in line with inflation (measured by the Consumer Prices Index).

3.2.1 Pension contributions

The employee pension contribution percentage is according to the pay band applicable. For example a pension contribution of 6.5% of pay applies where annual salary is in the range £21,001.00 to £34,000.00 a year. A person on £30,000.00 a year (£2,500.00 a month) pays £162.50 a month in pension contributions, but income tax relief is given by deducting the contribution from taxable pay so £162.50 a month costs £130.00 net if the tax rate is 20%.

A part-time worker falls into the band relating to annual part-time pay.

The contribution rates that currently apply, depending on the annual salary band, is shown below.

Annual pay range	**Employee contribution rate (%)**
Up to £13,500	5.5
£13,501 to £21,000	5.8
£21,001 to £34,000	6.5
£34,001 to £43,000	6.8
£43,001 to £60,000	8.5
£60,001 to £85,000	9.9
£85,001 to £100,000	10.5
£100,001 to £150,000	11.4
More than £150,000	12.5

3.2.2 Retirement age

From April 2014 there is no longer a scheme retirement age in the LGPS; instead each person has an individual normal pension age which is the date of entitlement to State Pension. The State Pension age is being changed for women so that before the end of the decade there will be a common age of 65 for both men and women, and rising thereafter to age 66. To find out your own state pension age please see the following link: www.gov.uk/calculate-state-pension

3.3 Keeping up to date

Information regarding the LGPS provisions is provided on the Council's internal 'Izzi' site, and also on the external website for those who do not have access to the intranet site.

There are full details on the website regarding the LGPS.

Employees who are not members of the LGPS

There are many advantages in being a member of the LGPS and in early 2015 employees who are not currently making pension contributions will be invited to join the scheme. It is intended to include endorsements in the literature from the trades unions, who encourage staff to become members of the LGPS.

3.4 Pension administration performance

There are many advantages in being a member of the LGPS and in early 2015 employees who are not currently making pension contributions will be invited to join the scheme. It is intended to include endorsements in the literature from the trades unions, who encourage staff to become members of the LGPS.

The table below gives the data for the average performance for the year to 31 March 2014, in respect of the main procedures.

Process	**Target days to complete**	**Volume**	**Target % Achieve-ment**	% **Achieved within target days**	**Actual average days**
Deaths	5	74	95%	89.19%	2.70
Retirement benefits	5	191	95%	80.63%	4.56
Pension estimates	10	372	95%	91.40%	4.29
Preserved benefit calculations	15	353	95%	86.97%	12.23
Transfer-in quotation	10	75	95%	78.67%	8.93
Transfer-in actual	10	82	95%	78.05%	8.02
Transfer out quotation	15	58	95%	77.59%	9.87
Transfer out actual	12.5	55	95%	83.64%	8.32

Over the period, 89.51% of the 2,269 processes undertaken by the Pensions Administration team were completed within the target days.

Contacts - Pension benefits office

If you have any enquiries or wish to know more about your own pension benefits position, please contact the Pensions benefits staff at

Pensions section, Second floor, 7 Newington Barrow Way, London N7 7EP

Queries can be made to the Pensions Officer who deals with the alphabetical range that includes your surname:

Surname range	**Telephone enquiries**	**Email enquiries**
A – D	020 7527 2165	sarah.watts@islington.gov.uk
E – K	020 7527 2165	algie.theodoric@islington.gov.uk
L – Q	020 7527 4492	deborah.patten@islington.gov.uk
R – So	020 7257 2167	kelly.thompson@islington.gov.uk
Sp – Z	020 7527 2800	daljit.bhangal@islington.gov.uk

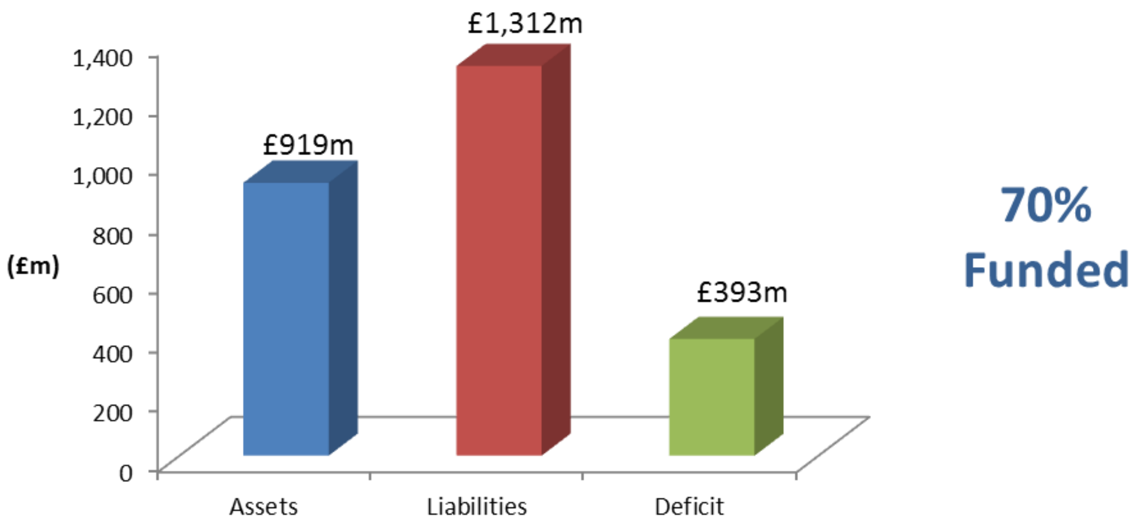
4: Funding of the pension scheme

4.1 Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2013.

An actuarial valuation of the Islington Council Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £919 million represented 70% of the Fund's past service liabilities of £1,312 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £393 million.



The valuation also showed that a common rate of contribution of 12.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 75% with a resulting deficit of £309 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £18.4m per annum increasing at 2.6% per annum (equivalent to approximately 12.3% of projected Pensionable Pay at the valuation date) for 22 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements for certain employers) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.6% per annum	6.35% per annum
Rate of pay increases	4.35% per annum*	4.35% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 6 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.15% per annum	4.15% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £1,467 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£106 million. Adding interest over the year increases the liabilities by c£61 million, and allowing for net benefits accrued/paid over the period (including a bulk transfer payment) decreases the liabilities by c£5 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£54 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £1,363 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2014

5: Democratic arrangements

For 2013/14 the Pensions Sub-Committee were responsible for all decision making on pensions matters and stewardship of the pension fund. The Chair and Members of the sub-committee are:

Membership	**Substitutes**
Cllr Richard Greening (Chair)	Cllr Paul Convery
Cllr Andy Hull	Cllr Satnam Gill
Cllr Jean Roger Kaseki	Cllr Mouna Hamitouche MBE
Cllr Michael O'Sullivan	Cllr Dave Poyser

Non-voting members:
Four trade union observers
Pensioner representative Brian Booker
Observer from Community Service Volunteers (CSV) (An 'admitted body')

Fund Investment Advisors:
Mercer
AllenbridgeEPIC Investment Advisers

Fund Actuary:
Mercer

Fund Custodian:
Bank of New York Mellon

Performance Monitoring:
WM Performance Services

Corporate Governance Research and Voting Advice Service:
Pension Investments Research Consultants

6: Summary of financial report

The accounts show that as at 31 March 2014 the fund had 35 admitted bodies, ten of which have frozen benefits and 19,005 members. The net assets of the scheme were worth £974 million. This is an increase of 5% compared to last year.

Employees’ contributions totalled £9.8 million, increase of £0.4 million over 2012/13

Employers’ contributions amounted to £28.9 million compared to the £27.9 million in the previous year. The 3% increase was mainly attributable to a rise in active members.

Pensions paid totalled £36.7 million compared to £35million in 2012/13, a rise of 5%. Pensions paid were subject to an annual inflation rise of 2.2% in April 2013.

As at 31 March 2014 the total income into the fund was £73.6 million against an expenditure of £55.7 million. This means that the fund was able to meet all its commitments from contributions.

The detailed reporting of the pension fund accounts for 2013/14 forms part of the council’s annual statement of accounts which include the statement of responsibilities and covers all the council services. This can be found at www.islington.gov.uk/accounts.

7: Statement of Responsibilities

The London Borough of Islington as Administering Authority of the London Borough of Islington Pension Fund 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 Council, that Officer is the Corporate Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Responsibilities of the Corporate Director of Finance

The Corporate Director of Finance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").
In preparing this Statement of Accounts, the Corporate Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice, except where otherwise stated.

The Corporate Director of Finance

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 18-40 have been prepared in accordance with proper practices and present fairly the transactions of the London Borough of Islington Pension Fund during the year ended 31 March 2014 and financial position of the Fund at that date of its assets and liabilities, other than liabilities to pay pensions and benefits accruing after the year end.

Mike Curtis
Corporate Director of Finance

8: Statement of accounts 2013/14

Pension Fund

Explanatory Foreword

The principal purpose of the Islington Council Pension Fund is to provide pensions for its employees (other than teachers who have their own national fund) under the Local Government Pension Scheme.

The Pension Fund is a defined benefit scheme built up from contributions paid by both employees and the Council, together with interest and dividends received from the Fund's investments; out of which pensions and other benefits are paid. Employees' contributions to the Fund and the extent of benefits paid out are fixed by Government Regulations. An independent actuary assesses the Council's contribution rate every three years. The Local Government Pension Scheme is operated under regulations made under Sections 7 and 12 of the Local Government Superannuation Act 1972. The Regulations are the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and cover contributions, valuation of the Fund and benefits. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended, cover fund management and suitable investments. The Pension Fund Accounts have been drawn up in accordance with the 2013/14 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the provisions of Chapter 2 of the Statement of Recommended Practice "Financial Reports of Pension Schemes.

The Council has delegated the investment arrangements of the scheme to the Pensions Sub-Committee who decide on the investment policy most suitable to meet the liabilities of the Scheme and the ultimate responsibility for the investment policy lies with it. The Committee is made up of four elected members of the Council who each have voting rights, and four observers, representing members of the fund, who do not have voting rights. The Committee reports to the Council and has fully delegated authority to make investment decisions. The Committee obtains and considers advice from the Corporate Director of Finance, and as necessary from the Pension Fund's appointed actuary (including specific investment advice), investment managers and investment advisers.

The investment portfolio is managed by investment managers. The fund has two private equity fund managers Pantheon Ventures (total commitment £28.2 million) and Standard Life (total commitment £48.1 million). The fund also has one fund of funds private global property manager, Franklin Templeton (total commitment £25 million). The fund managers have discretion to buy and sell investments within the constraints set by the Pensions Sub-Committee.

The Statement of Investment Principles, Funding Strategy Statement and Governance Policy Statement for the Fund are available on the Council's website www.islington.gov.uk. The easiest way to access this is through the A-Z button, under "Finance Department"; "The Statement of Investment Principles, Funding Strategy Statement and Governance Policy Statement, for the Fund are available on the Council's website :

http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx

Power is given in the 2008 Administration Regulations (as amended) to admit employees of other organisations to the London Borough of Islington Pension Fund. Lists of the scheduled and admitted bodies to the fund are detailed below:

Organisation	Employer
Islington Council	Administering Authority
St Mary Magdalene	Scheduled Body
City of London Academy	Scheduled Body
William Tyndale School	Scheduled Body
New North Community School	Scheduled Body
The Courtyard School	Scheduled Body
Stem 6th Form Academy	Scheduled Body
Community Services Volunteers (CSV)	Admitted Body
Aquaterra	Admitted Body
Circle Anglia	Admitted Body
Camden & Islington NHS Foundation Trust	Admitted Body
SSE Contraction Ltd (Islington Lighting)	Admitted Body
Southern Housing Group	Admitted Body
Braithwaite	Admitted Body
Pleydell	Admitted Body
Kier Support Services	Admitted Body
Cofely Workplace Ltd (Balfour Beatty)	Admitted Body
Caterlink	Admitted Body
NCP Services (Islington South)	Admitted Body
RM Education	Admitted Body
Breyer Group	Admitted Body
Mears Ltd	Admitted Body
Greenwich Leisure Ltd	Admitted Body

There are also twelve other admitted bodies that do not currently have any active members. These are:

London Property Maintenance

FSST

St Lukes

Association of London Authorities (ALA)

Family Services Unit (FSU)

Redbrick

Brunswick

Cushman & Wakefield

Kier Islington

Mouchel Parkman

Cambridge Education Associates (CEA)

Notting Hill Housing Trust

8.1 Accounting Policies

The accounts have been prepared in accordance with the provisions of Chapter 2 of Recommended Accounting Practice of the Pension SORP May 2007 and the 2013/14 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is IFRS compliant. The financial statements have been prepared on an accruals basis except for transfers to and from the scheme which are accounted for on a cash basis.

The accounts summarise the transactions and net assets of the fund. They do not take account of future liabilities to pay pensions and other benefits after the period end.

The principal accounting policies of the scheme are as follows:

8.1.1. Investments

- Investment values are at bid price.
- Listed investments are shown in the Pension Fund accounts at market value, determined by Stock Exchange prices at the net asset statement date.
- Fixed interest securities are stated at their bid price. The value of fixed interest investments in the Fund’s investment portfolio excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income.
- Current market value of equities is based on bid price as provided by fund managers.
- Index linked securities are valued at bid price.
- Pooled Investment Vehicles are stated at bid price for funds with bid/offer spreads or single price where there are no bid/offer spreads as provided by the investment manager.
- Managed funds and Unit trusts are valued at the price quoted by their respective managers on the last trading day of the year, which is determined by the market value of the underlying investments.
- Private equity is priced on the latest audited valuation plus any drawdowns and distributions to the 31 March 2014.
- Property is valued on the unit price as quoted by the fund manager.
- Derivatives are stated at market value.
- Corporate bonds are managed in a pooled fund valued at a single swinging price.
- Acquisition costs of assets are included within the historic cost of the assets

8.1.2. Investment Income

- Investment income (e.g. dividends and interest on Government Stocks) is accounted for on an accruals basis.
- Investment income is taken into account where dividends have been declared at the end of the financial year.

- Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line in the face of the account.

8.1.3. Foreign Currencies
Foreign income has been translated into sterling at the date of the transaction. Foreign income due at the year-end has been translated into sterling at the rate ruling at 31 March 2014.

8*.1.4. Contributions*
Normal contributions, both from employees and employers, are accounted for in the payroll month to which they relate at values specified in the rates and adjustments certificate. Additional contributions from employers are accounted for when received.

8.1.5. Benefits Payable
Benefits payable and refund of contributions are brought into the accounts on the basis of valid claims approved during the year. Under the rules of the Fund, retirees receive a lump sum retirement grant in respect of any membership up to 31 March 2008, in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose regarding the type or amount of benefit, then these lump sums are accounted for on an accruals basis from the date that the option is exercised. Other benefits are accounted for on the date the member leaves the Fund or on death.

8.1.6. Transfers
Transfer values are those sums paid by, or received from, other pension schemes and included in the accounts on the basis of the date paid for transfers to or from other Local Government schemes.

8.1.7. Expenses

- Regulations permit the Council to charge administration costs and the investment managers' fees to the Fund.

- Administration costs represent officers' salaries and other expenses for work on scheme administration and investment-related matters and central establishment and computer recharges.

- The cost of administration, fund managers' fees, performance measurement fees and valuation fees are charged directly to the fund.

- Expenses are recognised on an accruals basis net of any recoverable VAT.

8.1.8. Stock Lending
The fund does not participate in stock lending.

8.1.9. Additional Voluntary Contributions
Additional Voluntary Contributions (AVCs) paid by scheme members are not included within the accounts as these are managed independently of the fund by specialist AVC fund providers. This is in accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009. Total contribution paid by members during 2013/14 amounted to £153,314 and the value of the fund as at 31 March 2014 was £1.555m.

8.1.10. Actuarial Position

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

8.2 Income and Expenditure Account

2012/13 £'000	Pension Fund Account (dealing with members, employers and others directly involved in the scheme)	2013/14 £'000	Note
	Income		
27,985	Employer contributions	28,962	2
9,467	Members contributions	9,831	2
3,090	Transfers in from other pension funds	3,767	3
2,511	Other Income	2,530	4
43,053	**Total Income**	**45,090**	
	Expenditure		
(43,003)	Benefits payable	(44,535)	5
(3,586)	Payment to and on account of leavers	(9,057)	6
(992)	Administrative & other expenses borne by scheme	(1,002)	7
(47,581)	**Total Expenditure**	**(54,594)**	
(4,528)	**Net additions/ (withdrawals) from dealing with members**	**(9,504)**	

	Returns on investment		
13,478	Investment income	28,531	8
98,088	Change in market value (realised & unrealised)	36,999	
(793)	Investment management expenses	(1,116)	10
110,773	**Total Returns on investments**	**64,414**	

	Net return on investments		
106,245	Net increase/decrease in fund in year	54,910	
812,861	**Opening net assets of the scheme**	**919,106**	
919,106	**Closing net assets of the scheme**	**974,016**	

8.3 Net Assets Statement

2012/13 £'000	Net Assets Statement for the year ended 31 March 2014	2013/14 £'000	Note
	Investments		
907,934	Investment assets	950,833	9
10,348	Other Investment and Cash	20,881	9
918,282	**Total Investments**	**971,714**	
	Current Assets and Liabilities		
-	Investment liabilities	-	
-	Borrow ings	-	
2,797	Current assets	3,871	11
(1,973)	Current liabilities	(1,568)	12
824	**Net Current Assets**	**2,302**	
919,106	**Net assets of the scheme at 31 March**	**974,016**	

The accounts summarise the transactions of the scheme and deal w ith the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits w hich fall due after the end of the scheme year. The actuarial position of the scheme, w hich does take account of such obligations, is dealt w ith in the statement by the actuary included in the annual report and these financial statements should be read in conjunction w ith it.

8.4 Notes to the Pensions Account

8.4.1. The accounts have been prepared in accordance with the Occupational Pension Schemes Regulations 1996 and with guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007) and the 2013/14 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

8.4.2a. The following table sets out an analysis of the contributions made by the Council and its Admitted bodies.

Contributions receivable - Employers' contributions	Normal Contributions		Special Contributions		Strain Recovery*	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority						
Islington Council	23,494	24,810	-	-	1,193	1,658
Scheduled Bodies						
St Mary Magdalene	136	142	-	-	-	-
City of London Academy	88	91	-	-	-	-
New North Community School	6	72	-	-	-	-
William Tyndale School	23	86	-	-	-	-
The Courtyard School	-	6	-	-	-	-
Stem 6th form Academy	-	2	-	-	-	-
Admitted bodies						
CSV	997	941	-	-	-	78
Aquaterra	226	226	-	-	-	-
Circle Anglia	17	12	-	-	-	-
Camden & Islington NHS Foundation Trust	75	65	-	-	-	-
CEA	679	-	-	-	209	-
Notting Hill Trust	2	1	-	-	-	-
NCP Services (Islington South)	16	16	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	22	21	-	-	-	-
Southern Housing Group	7	5	-	-	-	-
Braithw aite	3	3	-	-	-	-
Pleydell	3	10	-	-	-	-
Caterlink	155	148	-	-	-	-
Mouchel Parkman	-	-	100	-	-	-
Cofely Workplace Ltd (Balfour Beatty)	49	71	-	-	-	-
R M Education	5	8	-	-	-	-
Kier support Services	434	405	-	-	-	37
Breyer Group	19	17	-	-	-	-
Mears Ltd	26	27	-	-	-	-
Greenw ich Leisure Ltd	1	4	-	-	-	-
Totals	26,483	27,189	100	0	1,402	1,773

*Note 15 provides further information regarding “Strain Recovery”

8.4.2b. The following table sets out an analysis of the contributions made by Employees of the Council and its Admitted bodies.

Contributions receivable - Members contributions	Normal Contributions (inc Added Years Contributions)	
	2012/13	2013/14
	£'000	*£'000*
Administering Authority		
Islington Council	8,440	9,056
Scheduled Bodies		
St Mary Magdalene	90	93
City of London Academy	51	52
New North Community School	13	16
William Tyndale School	13	13
The Courtyard School	-	4
Stem 6th form Academy	-	3
Admitted bodies		
CSV	217	185
Aquaterra	75	76
Circle Anglia	4	2
Camden & Islington NHS Foundation Trust	13	9
CEA	231	-
Notting Hill Trust	1	0
NCP Services (Islington South)	9	9
SSE Contracting Ltd (Islington Lighting)	7	7
Southern Housing Group	2	1
Braithwaite	2	2
Pleydell	2	6
Caterlink	56	54
Cofely Workplace Ltd (Balfour Beatty)	23	34
R M Education	4	7
Kier Support Services	193	181
Breyer Group	10	9
Mears Ltd	11	11
Greenwich Leisure Ltd	-	1
Totals	**9,467**	**9,831**

8.4.3. Transfers in

2012/13 £'000	Transfers in	2013/14 £'000
-	Group transfers in from other schemes	-
3,090	Individual transfers in from other schemes	3,767
3,090	**Total transfers in**	**3,767**

8.4.4. Other Income

2012/13 £'000	Other Income	2013/14 £'000
0	Income from Other Investments	0
0	Interest	0
2,511	Other	2,530
2,511	**Total other income**	**2,530**

8.4.5. Benefits

The following table sets out an analysis of the benefits paid to former employees of this Council and the admitted bodies.

Benefits Payable	Pensions		Lump sum benefits		Lump sum death	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Administering Authority						
Islington Council	32,604	34,112	5,925	6,174	1,351	1,186
Scheduled Bodies						
St Mary Magdalene	6	6	2	-	-	-
City of London Academy	-	3	-	19	-	-
New North Community School	7	4	-	-	-	-
William Tyndale School	-	-	-	-	-	-
The Courtyard School	-	-	-	-	-	-
Stem 6th form Academy	-	-	-	-	-	-
Admitted bodies						
CSV	818	872	66	175	21	0
Aquaterra	180	198	30	-	-	-
Circle Anglia	41	49	-	88	-	-
Camden & Islington NHS Foundation Trust	47	49	-	-	-	-
CEA	706	789	424	-	-	-
FSST	6	6	-	-	-	-
Kier Islington Ltd (Caxton)	539	542	26	-	71	-
NCP Services (Islington South)	29	28	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	21	21	-	-	-	-
Redbrick	2	2	-	-	-	-
Mouchel Parkman	29	30	-	-	-	-
St Lukes	2	2	-	-	-	-
ALA	6	9	-	23	-	-
Brunswick	8	9	-	2	-	-
Cushman & Wakefield LLP	12	12	-	-	-	-
London Property Maintenance	1	0	-	-	-	-
Caterlink	8	2	-	-	5	20
Notting Hill Trust	10	14	-	13	-	-
Kier Support Services	-	2	-	71	-	0
Cofely Workplace Ltd (Balfour Beatty)	-	1	-	2	-	-
Mears Ltd	-	-	-	-	-	-
Greenwich Leisure Ltd	-	-	-	-	-	-
Totals	**35,082**	**36,762**	**6,473**	**6,567**	**1,448**	**1,206**

8.4.6. Payments to and on Account of Leavers

2012/13 £'000	Payment to and on Account of Leavers	2013/14 £'000
31	Refunds of Contributions	6
-	Group Transfers*	6,079
3,555	Individual Transfer	2,972
3,586	**Total payments to and on account of leavers**	**9,057**

*Bulk transfer from Islington to LPFA in respect of staff who joined the LGA and TfL

8.4.7. Administrative and Other Expenses

2012/13 £'000	Administrative expenses	2013/14 £'000
771	Employee Cost	747
180	Support services / IT	185
0	Actuarial fees	47
21	Audit fee	21
-	Legal and other professional fees	-
20	Other expenses	2
992	**Total administrative expenses**	**1,002**

All other costs of administration are borne by Islington Council.

8.4.8. Income from Investments

2012/13 £'000	Investment Income	2013/14 £'000
14,576	Dividends from equities	17,623
(3,205)	Income from other investments vehicles	8,688
2,106	Net rents from pooled investment properties	2,220
1	Interest on cash deposits	-
13,478	**Total Investment income**	**28,531**
-	Irrecoverable withholding tax	-
13,478	**Total Investment income**	**28,531**

8.4.9. Investments

Investments	**Market value 01 Apr 13**	**Purchases at cost and derivative payments**	**Sale proceeds and derivative receipts**	**Change in market value**	**Value as at 31 Mar 14**
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Fixed interest securities	82	-	-	(5)	77
Indexed linked securities	130	-	-	(10)	120
Equities	481,514	62,325	56,501	19,733	507,071
Pooled investment vehicles (P.I.V)	266,422	38,021	38,024	4,517	270,936
Other Investment - P.I.V	-	-	-	-	-
Properties - P.I.V	116,517	3,785	1,147	10,066	129,221
Private Equity - P.I.V	43,244	4,078	6,627	2,700	43,395
Venture Capital	25	-	10	(2)	13
Total	**907,934**	**108,209**	**102,309**	**36,999**	**950,833**
Other Investment & Cash	10,348				20,881
Total Investments	**918,282**				**971,714**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year including profits and losses realised on sales of investments during the year. Investments are now valued at bid price.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. In addition, indirect costs are incurred thorough bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

Investment Assets by Type		2012/13 £'000	2013/14 £'000
Fixed interest securities (valued at Bid Price)			
Fixed interest securities (valued at Bid Price)		82	77
Total Fixed interest securities		**82**	**77**
Equities (valued at Bid Price)			
UK quoted		267,828	270,673
Overseas quoted		213,686	236,398
Total Equities		**481,514**	**507,071**
Pooled investment vehicles (valued at Bid Price)			
UK Managed Funds	Property	69,652	76,797
	Other : Bond	189,766	195,242
Overseas Managed Funds	Other : Equity	72,664	68,206
	Property	6,410	8,750
	Other : Private Equity	43,244	43,395
UK Unit trusts (valued at Bid Price)	Property	40,455	43,674
	Other	4,017	7,501
Total Pooled investment vehicles		**426,208**	**443,565**
Index -linked Securities (Valued at Bid Price)			
UK public sector quoted		130	120
Overseas public sector quoted		-	-
Insurance policies			
Insurance policies		-	-
Other investment balances (valued at Amortised cost)			
Amounts due from broker		-	-
Outstanding trades		1,052	213
Outstanding dividends & RWT		2,405	2,274
Cash deposits : Sterling		6,891	18,394
Total Other investment balances		**10,478**	**21,001**
Total Investment Assets		**918,282**	**971,714**

Type of future	Expiration	Economic Exposure value	Market Value
UK FTSE exchange traded	Less than 1 year	-	-
UK gilt exchange traded	Less than 1 year	-	-
Total		**0**	**0**

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

8.4.10. Investment management expenses

2012/13 £'000	Investment management expenses	2013/14 £'000
709	Administration, management and custody	969
27	Performance measurement services	26
57	Other advisory fees	121
793	**Total investment management expenses**	**1,116**

8.4.11. Current assets

2012/13 £'000	Current Assets	2013/14 £'000
2,721	Contributions due from Employers	3,836
76	Sundry Debtors	35
0	Cash Balances	0
2,797	**Total**	**3,871**

8.4.12. Current liabilities

2012/13 £'000	Current Liabilities	2013/14 £'000
(708)	Accrued benefits	(585)
(1,087)	Sundry Creditors	(766)
(178)	Accrued expenses	(217)
(1,973)	**Total**	**(1,568)**

8.4.13. Expenditure
a) Benefits provided by the scheme include:

- Retirement pensions at normal retirement age or earlier should the Council's medical adviser decide that a member be retired on grounds of ill health, or on grounds of redundancy or efficiency of the service at or after the age of fifty-five.

- Pensions for widows and widowers and in certain circumstances children's pensions.

b) Lump sum payments on retirement or death in service. Retirement benefits are normally based on a members' pensionable pay over the last year of service, whilst the lump sum payment in respect of death in service is three times the actual final year's pay.

c) A contributor who leaves the service of the Council or opts out of the scheme and has less than three months membership may take a refund of contributions, so long as not re-entering the scheme within one month and one day of leaving/opting out. Any refund is subject to certain statutory deductions.

However, where the member's service is three months or more, no refund can be given, instead preserved benefits are awarded which are accrued up to the contributor's last day of service and are payable when benefits would normally become payable had the contributor remained in the employment of the Council. In certain circumstances, it may be possible to transfer accrued membership to another local authority or to an outside scheme/arrangement.

d) Payment of a Contribution Equivalent Premium (CEP) restores the Employee's rights in the state pension scheme as if he/she had not been contracted out, and extinguishes his/her accrued rights to a guaranteed minimum pension (GMP) in the local government pension scheme.

e) Regulations permit the Council to charge administration costs and the investment managers' fees to the Fund. Administration costs represent officers' salaries and other expenses for work on scheme administration and investment-related matters and central establishment and computer recharges. The fees paid to the investment managers are their charges for managing the investments of the Fund.

8.4.14. Income

Income is credited to the Pension Fund consisting mainly of:

a) Employees' contributions ranging between 5.25% and 7.5% according to the annual earnings band an employee falls in.

b) Employers' contributions determined by the triennial actuarial review. The last review as at 31 March 2010, effective from 1 April 2011 fixed at 10.9% of pensionable payroll costs. In common with many other local authorities, the Pension Fund has a deficit. It was agreed with the actuary that the deficit on past service should be met by separate additional lump sum payments and recovered over twenty five years. A lump sum contribution of £8.9m was made in 2013/14.

c) Upgraded Pensions relate to compensation payments (added years) made on redundancy or efficiency grounds, the index-linked increases thereon, and certain non-contributing service which the Council has treated as counting at full length in the payment of benefits. Income is transferred to the Pension Fund from the General Fund to offset these payments.

d) Contributions are invested and used for the benefit of the Pension Fund. The investment income in the form of dividends, interest and capital realisation is paid into the Fund.

e) Transfers to and from the Fund and other organisations are permitted. Transfers within the local government scheme are on a year for year, day for day basis but in all other transfers the money received from the organisation is used to purchase an amount of reckonable service in the local government scheme.

f) The Pension Fund is Tax Exempt

8.4.15. Actuarial Position

Mercer, an independent actuary, values the Fund every three years. The actuary's job is to decide whether present contribution rates are sufficient for funding purposes. They may, if the situation demands, recommend an increase in contributions to ensure the solvency of the Fund. The latest actuarial valuation, including calculated changes to the ongoing employer contribution rate to meet current service accrual, and to the lump sums needed to meet past service deficit, was carried out as at 31 March 2013.

Pension Fund Triennial Revaluation

The Pension Fund Triennial revaluation carried out as at 31 March 2013 will not come into effect in terms of altered employer contributions until 1 April 2014 to 31 March 2017. Under this revaluation the Fund assets were valued at £919m and liabilities at £1,312m, a deficit of

£393m. The funding level had declined from 72% to 70%. The funding target to recover the deficit was however, mitigated by improvements in financial factors as at 31 August 2013 in particular the increase in gilts yields. In agreement with employers, and the administering authority the actuary has built into the recovery plan this improvement to stabilise contributions requirement if appropriate.

The actuary has defined a common employer contribution rate of 12.8% of pensionable pay per annum, and an average additional contribution of 7.3% of pensionable pay for 22 years to eliminate the deficit. This would imply an average employer contribution rate of 20.1% of pensionable pay in total.

Additional monetary amounts are paid each year and inflated by the amount specified in the annual Pensions Increase Order, to complete a 22 year programme of payments to bring the Fund back to 100% funding.

The contribution rates were calculated using the projected unit actuarial method and the main assumptions (2013 valuation) were as follows for future service:

- Rate of return on investments 6.35% per annum
- Rate of general pay increases 4.35% per annum
- Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions) 2.6% per annum

Assets have been valued at their market value at the valuation date.

The Audit Commission published a report on the impact of early retirement on public sector pension funds in 1997, "Retiring Nature: Early Retirement in Local Government".

Following the Council's consideration of this report, a system of controls was put in place to protect the Pension Fund from the unfunded costs or "strain" placed on the Fund to finance early retirements due to redundancy, and also high levels of medical retirements. As a result all medical retirements must be considered and approved by the Council's Occupational Health Adviser based on practice guidelines issued by the adviser's professional body.

In addition the levels of medical retirements are monitored annually to ensure that the costs incurred are not significantly different from the annual allowance for such costs made by the Fund actuary. For early retirements resulting from redundancy, there is no allowance in the Pension Fund for the costs of the additional years of benefit payable before normal retirement age, or the loss of contribution income, (the capitalised sum of these cash streams are termed the "strain" on the Pension Fund). To allow for this, when departments consider redundancies involving an early retirement, they must take into account the "strain" cost in the appraisal, and if an early retirement is permitted, the department must repay the "strain" payment into the Fund. Instalments over three years are permitted, with an interest charge.

8.4.16. Fund Membership

Membership of the Fund	Administering Body 2012/13 No's	Administering Body 2013/14 No's	Admitted Bodies 2012/13 No's	Admitted Bodies 2013/14 No's	Scheduled Bodies 2012/13 No's	Scheduled Bodies 2013/14 No's	Totals 2012/13 No's	Totals 2013/14 No's
Employees Contributing into the Fund	4,852	5,658	482	360	121	147	5,455	6,165
Pensioners / Dependents	4,327	4,498	370	326	4	6	4,701	4,830
Widow s / Children's Pensions	847	881	44	43	-	-	891	924
Deferred Benefits	6,126	6,324	901	702	45	60	7,072	7,086
Totals	**16,152**	**17,361**	**1,797**	**1,431**	**170**	**213**	**18,119**	**19,005**

8.4.17. Additional Voluntary Contributions

2012/13 Market Value £'000	Additional Voluntary Contribution	2013/14 Market Value £'000
1,057	Prudential	1,245
237	Equitable life	227
109	NPI	83
1,403	**Total Additional Voluntary Contributions**	**1,555**

8.4.18. Contingent Assets and Liabilities
There were no contingent assets or liabilities in 2013/14.

8.4.19. Contractual Commitments.
There were no contractual commitments at the period end.

8.4.20. Related Parties
Islington Pension Fund is administered by Islington Council.

Members of the Pensions Sub-committee are related parties of the fund and four of them are members of the LGPS.

As at 31 March 2014, Islington Council owed the Pension fund £1.4m (£1m 2012-13). Full contributions from the Council for the year are disclosed in table 2a.

8.4.21. Post Balance Sheet Events
None identified at the date of issue.

8.4.22. Risk and risk management

The Fund's primary risk is that assets fall short of liabilities in the long term and as a result not able to honour promised benefits to members. The Fund has identified the investment risk inherent in the predominantly equity based strategy, as it biggest risk. Investment Strategy adopted by the pension sub-committee to mitigate this risk includes a diversified asset allocation to include property, private equity and bonds. The equity portfolio is diversified by region and company holdings. The committee monitors managers regularly by performance benchmark and reviews strategies as markets evolve.

8.4.23. Price and currency risk

Price and currency risk can be quantified by observing the potential market movement on the riskier assets and possible change in valuation.

8.4.23a. Price risk

Price Risk	Final Market Value as at 31/03/14 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	325,881	11.99%	364,954	286,808
Overseas Equities	257,985	11.82%	288,479	227,491
Total Bonds	196,825	5.51%	207,670	185,980
Cash	18,655	0.02%	18,659	18,651
Property	127,550	2.28%	130,458	124,642
Private Equity	44,550	5.46%	46,982	42,118
Total Assets	**971,446**		**1,057,202**	**885,690**

8.4.23b. Currency risk

The overseas equities are currently 50- 75% hedged hence mitigating any volatility in the major currencies of the dollar, yen and euro. 75% of the overseas equities are in the basket of the passive currency overlay hedge and as such the table above shows the aggregate currency exposure to overseas equities. A single outcome exchange rate volatility impact reflects the changes in value.

Currency Risk	Final Market Value as at 31/03/14 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities- Yen	12,530	2.85%	12,887	12,173
Overseas Asset 2-euro	103,922	2.85%	106,882	100,962
Overseas Asset 3-US dollar	59,262	2.85%	60,950	57,574
Overseas Asset 4-other int	61,376	2.85%	63,124	59,628
Overseas Asset 5-asia ex japan	20,446	2.85%	21,028	19,864
Total Assets	**257,536**		**264,871**	**250,201**

8.4.24. Financial Instruments

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

Values at 31 March 2014	**Quoted Market Price**	**Using Observable Inputs**	**With Significant Unobservable inputs**	**Total**
	Level 1	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assests				
Financial assets at fair value through profit and loss	907,438	64,276	-	971,714
Loans and Receivables	-	3,871	-	3,871
Total Financial Assets	**907,438**	**68,147**	**0**	**975,585**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(1,568)	-	(1,568)
Total Financial Liabilities	**0**	**(1,568)**	**0**	**(1,568)**
Net Financial Assets	**907,438**	**66,578**	**0**	**974,016**

Values at 31 March 2013	**Quoted Market Price**	**Using Observable Inputs**	**With Significant Unobservable inputs**	**Total**
	Level 1	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assests				
Financial assets at fair value through profit and loss	864,690	53,592	-	918,282
Loans and Receivables	-	2,797	-	2,797
Total Financial Assets	**864,690**	**56,389**	**0**	**921,079**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(1,973)	-	(1,973)
Total Financial Liabilities	**0**	**(1,973)**	**0**	**(1,973)**
Net Financial Assets	**864,690**	**54,416**	**0**	**919,106**

Valuation of financial instruments carried a fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or 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 2

Financial instruments at Level 2 are those where 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 are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

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

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which The Islington Council 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 valuation to 31 March as appropriate.

8.4.25. Investment Assets by Fund Manager

Investment Assets by Fund Manager	2012/13 £'000	2013/14 £'000
LBI In House Fund		
EQUITIES		
UK quoted - LBI self managed	253,419	259,963
Overseas quoted - LBI self managed	39,486	50,004
CASH DEPOSITS		
Sterling	1,722	3,218
Other	0	0
OTHER INVESTMENT BALANCES		
Outstanding Dividends/Tax	1,634	1,626
Outstanding trades	*376*	*0*
FIXED INTEREST		
UK	82	77
INDEX-LINKED		
UK	130	120
POOLED FUNDS		
UK	3,992	5,002
Total LBI In House Fund	**300,841**	**320,010**
Newton		
EQUITIES		
Overseas quoted - NEWTON	103,380	109,268
UK quoted - NEWTON	7,294	8,392
CASH DEPOSITS		
Sterling	2,738	3,450
Other	0	0
OTHER INVESTMENT BALANCES		
Outstanding Dividends	477	487
Outstanding trades	585	213
Total Newton	**114,474**	**121,810**
RCM		
EQUITIES		
Overseas quoted - RCM	70,820	77,126
UK quoted - RCM	7,115	2,318
POOLED FUNDS		
Other	0	2,485
CASH DEPOSITS		
Sterling	2,037	2,646
Other	0	0
OTHER INVESTMENT BALANCES		
Outstanding Dividends	242	161
Outstanding trades	143	0
Total RCM	**80,357**	**84,736**

Investment Assets by Fund Manager (contd.)	2012/13 £'000	2013/14 £'000
Standard Life Bonds		
POOLED INVESTMENT VEHICLES		
Managed funds	189,766	195,242
Pantheon		
POOLED INVESTMENT VEHICLES		
Private equity - overseas	21,406	20,163
Standard Life		
POOLED INVESTMENT VEHICLES		
Private equity - overseas	21,838	23,232
Aviva Lime Property		
UK UNIT TRUSTS		
Property	40,455	43,674
Threadneedle Pensions		
POOLED INVESTMENT: Property	50,053	55,962
Baring English Growth Fund		
UK UNIT TRUSTS	16	13
Midlands Growth Fund		
UK UNIT TRUSTS	9	0
Thesis		
POOLED INVESTMENT: Property	19,600	20,835
BNY Mellon		
CASH DEPOSITS : Sterling	393	9,080
Legal & General		
POOLED INVESTMENT VEHICLES		
Managed funds	72,664	68,207
Franklin Templeton		
Pooled Investment Global Property	6,410	8,750
Total Investment Assets	**918,282**	**971,714**

9: Glossary of terms

Actuary
An independent consultant who advises the fund and reviews the financial position of the fund every three years. The actuary then produces a report, known as the actuarial valuation report, which compares the fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

Added years
Additional service that a member of the fund can buy by paying extra contributions to the fund providing that Inland Revenue limits on pension and contributions are not exceeded.

Additional Voluntary Contributions (AVCs)
An option available to individual members to secure additional pension benefits by making regular payments to the pension fund's AVC provider up to a maximum of 15% of total earnings.

Asset allocation
The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

Asset class
A collective term for investments of a similar type. The main asset classes are equities (shares), bonds, cash and property.

Basis point
One hundredth of 1% (i.e. 0.01%).

Benchmark
A yardstick against which the investment policy of performance of a fund manager can be compared. Asset allocation benchmarks vary from peer group (e.g. the average fund as measured by one of the performance surveys) to customized benchmarks tailored to a particular fund's requirements.

Cash transfer values
The capital value of a benefit entitlement paid into or withdrawn from the fund when an employee joins or leaves the scheme with a pension transfer.

Corporate bond
Strictly speaking, corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments in their own currencies. Therefore the 'credit' sector, as it is often known, includes issues by companies, supranational organizations and government agencies.

Custody
Administering of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income, process tax reclaims and provide

other services, according to client instructions. The custodian physically holds the securities for safe-keeping

Deferred pension
The pension benefit payable from Normal Retirement Age to a member of the fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age.

Defined benefit scheme
A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

Diversification
The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce risk.

Emerging markets
Stock Markets in developing countries (as defined by the World Bank).

Equities
Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Final pensionable pay
Pensionable Pay earned in the last 12 months before retirement (or any one of the previous two years if annual earnings in either of these years are higher).

Final salary scheme
A pension scheme that provides a pension and a lump sum benefit calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

Fixed interest
An income stream which remains constant during the life of the asset, such as income derived from bonds, annuities and preference shares.

Fixed interest securities
Investments, mainly in government stocks, which guarantee a fixed rate of interest. Investments in government stocks represent 'loans' to Government which are repayable on a stated future date.

Index
A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Mandate
The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark.

Market value
The price at which an investment can be bought or sold at a given date.

Normal retirement age
Age 65 for both men and women but members whose age and membership, when combined, total 85 or more can retire at any time from age 60 without actuarial reduction.

Pensionable pay
Basic pay excluding non-contractual overtime, bonus and shift payments.

Pooled funds
Pooled funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Return
The value received (income plus capital) annually from an investment, usually expressed as a percentage.

Unconstrained equity investing
Mandates where the investment manager is expected to construct and manage their portfolio of stocks in a way that reflects their judgment, without being hindered by limits sets relative to a benchmark index. The manager may also be free to invest a high proportion in cash if they have a negative view on equity markets. Generally, there would be few investment restrictions, although a mandate would rarely be totally unconstrained.

Unlisted securities
Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

Valuation
A summary of an investment portfolio showing the holdings and their value as at a certain date.

10: Auditors opinion

Independent auditor's report to the members of the London Borough of Islington on the pension fund financial statements published with the Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 18 to 40.

Respective responsibilities of the Corporate Director of Finance and the auditor

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities the Corporate Director of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report 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 annual published statement of accounts of the London Borough of Islington, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

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

Matters on which we are required to report by exception
The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Philip Johnstone

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

KPMG LLP
15 Canada Square
London
E14 5GL

30 September 2014

11: The fund's statutory statements

11.1 Statement of Investment Principles

11.1.1 Legal background

This Statement sets out the policy of the Council towards investment and management of the Pension Fund assets, as required by regulation 9A (1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended*.* This Statement will be updated regularly and when material changes are made to the strategic asset allocation.

Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009, as amended, requires the Council to publish a written Statement of Investment Principles governing its decisions about the investment of fund money. This will include the extent to which it complies with the six principles of investment practice (as revised by the Government in October 2008) in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners.

The Council is the administering authority for the London Borough of Islington Pension Fund, within the Local Government Pension Scheme (LGPS). It is managed within the legal framework set down in the Local Government Pension Scheme regulations 1997 (LGPS Regulations 1997), as amended. The body responsible for decision making in relation to the Pension Fund is the Pensions Sub-Committee of the Corporate Services Committee.

11.1.2 Supplementary Information available in other Published Statements

Details of governance policy for the Fund are contained in a statement required to be published by regulation 73A of the LGPS Regulations 1997. This covers, for example, policy on delegation within the Council's committee structure, frequency of meetings, terms of reference, and representation and voting rights of committee members. This statement is available on the Council's website.

The Council must publish a statement of policy concerning communications with members and employing authorities (including non-Scheme employers) under regulation 106B of the LGPS Regulations 1997. This covers, amongst other issues, the manner of publicising the Scheme to members, and employing authorities, and how the Scheme will be promoted to prospective members and their employing authorities. This statement is available on the Council's website.

Finally, under regulation 76A of the LGPS Regulations 1997 and guidance from the Chartered Institute of Public Finance and Accountancy Pensions Panel, the Council has had to publish a Funding Strategy Statement (FSS). The FSS recognises that benefits payable under the pension scheme are guaranteed by statute and that thereby the pensions promise is secure. The FSS, however, addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure. The FSS establishes a clear strategy identifying how employers' pension liabilities are best met going forward, taking into account the regulatory requirement to maintain as nearly constant employer contribution rates as possible, whilst taking a prudent longer-term view of funding the liabilities.

11.1.3 Pension Fund Liabilities

The LGPS is a defined benefit scheme based on the final salary of scheme members. Pension benefits are defined in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended),and are linked to a formula involving years of service and pensionable pay (the formula being different for pensionable service accrued pre and post 1 April 2008). Scheme members building up their pension benefits are required to make contributions, between 5.5% and 7.5% of pensionable pay. The rate paid depends on which pay band is applicable. Pension benefits are not linked to the investment performance of the Pension Fund.

The Council appoints an independent actuary who values the liabilities of the Fund and determines the level of employer contributions which must be made by the Council and other employers admitted to the Fund, to ensure that the investment assets of the Fund achieve 100% of the value placed on the liabilities.

Where there is a shortfall in the value of the assets, the Council must comply with contribution rates determined by the actuary to recover full funding, and in setting these rates (expressed in a rates and adjustments certificate), section 36 of the The Local Government Pension Scheme) (Administration) Regulations 2008 (as amended states:

> "The actuary must have regard-
>
> (a) to the existing and prospective liabilities of the fund arising from circumstances common to all those bodies, and
>
> (b) to the desirability of maintaining as nearly constant a rate as possible.
>
> (c) the current version of the administering authority's Funding Strategy Statement as mentioned in Regulation 35.. "

As referred to above, further detail on policy towards funding the liabilities is now contained in the Funding Strategy Statement dated 31st March 2010.

11.1.4 Investment Policy / Attitude to Risk

The Pensions Sub-Committee has adopted policies with the objective of achieving maximum growth of Pension Fund investments, to reduce the burden of employer contributions on the General Fund. This is, however, tempered by the objective of reducing extreme variations of employer contribution that could occur at any triennial revaluation of the Fund by the Fund actuary.

At the last triennial valuation as at 31st March 2010, the funding level or ratio of asset value to the discounted value of the liabilities was 72%. An interim review at 31 March 2011 is being undertaken, the preliminary results indicate a funding level of 73% as at 31 March 2011, and 61% as at 30 September 2011. The funding level is monitored during the intervaluation period on a quarterly basis outside of the interim review exercises.

The Council has agreed a strategy with the Fund actuary to return the funding level from the 31 March 2010 level of 72%, to 100% through making additional employer contributions over a period of 25 years from 31 March 2010. The balance between major asset classes in the strategic asset allocation, and particularly the weighting to equities, is expected to contribute significantly, over the longer term, to the achievement of this objective. Further detail may be found in the Funding Strategy Statement.

The risk profile adopted by the Pensions Sub-Committee has been established following detailed asset/liability studies of the Fund and this was most recently reviewed in 2010. These studies examined the balance of active contributing scheme members to pensioner members and deferred members (no longer employed by the Council but not yet drawing benefits), and related this “scheme maturity” to asset allocation strategies for Fund investment. The risk of significant variation in future employer contribution outcomes could then be modelled on a variety of economic and market assumptions.

A strategy of limiting risk by matching to a degree the types of assets invested in, to the obligations or liabilities of the Fund has been adopted. The balance between investing for growth and investing in assets with the best fit or match to liabilities is a judgement requiring regular reappraisal.

Policy is determined in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended. As required by these Regulations the suitability of various types of investments has been considered, as also has the need to diversify investments to reduce the risk of being invested in too narrow a range of assets. In addition, this process has benefited from the provision of independent, professional investment advice.

The most significant asset allocation strategy decision for the Pension Fund has been to split assets as follows:

- 60% company shares or equities, (private and publicly quoted)
- 25% corporate bonds
- 15% property

The full asset allocation is set out in Appendix A, showing the various asset classes, the target for each asset class at the level of the total Fund, and the permitted ranges within which this may vary due to the relative movements in asset values over time.

Appendix B shows how this is reflected across individual portfolios, the current managers of those portfolios, and the benchmarks against which the individual manager’s performance is measured. These portfolios have been established to ensure diversification, and take into account the suitability of the type of investment for the Fund, and are managed as follows:

11.1.5 Equities

The Fund has made allocations to UK and overseas equities, both publicly and privately quoted, with the regional split broadly 50% UK and 50% overseas. The intention is for the allocation to UK equities to be reduced from 50% to 30% over time. The equity portfolio is split between a core index-tracking allocation and actively managed portfolios that target returns in excess of the relevant market index.

11.1.5.1 UK Equity Index Fund.

Aims to track the FTSE All Share Index which currently comprises c.98-99% of the total UK equity market capitalisation and is an aggregation of the FTSE 100, FTSE 250 and

FTSE Small Cap Indices. This portfolio is passively managed to track the index within a variation of plus or minus 0.5% p.a. This portfolio is the only portfolio managed in-house. External managers manage the other specialist portfolios.

11.1.5.2 Overseas equities.
Legal and General Investment Management (LGIM) manage an index-tracking overseas equity portfolio with allocations to North America, Europe (ex UK), Japan, Asia-Pacific (ex Japan) and Emerging Markets. LGIM's mandate requires them to maintain the Fund's overall allocations to each region within specific tolerance bands around a central asset allocation. Performance will be assessed for each of the regional allocations against the relevant FTSE regional index as detailed in Appendix B.

11.1.5.3 Global equities
Newton and RCM manage global equity portfolios benchmarked against the FTSE All World index. The managers' targets are to achieve at least 2.0% p.a. and 3.0% p.a. outperformance respectively over their benchmarks measured on rolling three year periods net of fees.

11.1.5.4 Global Private Equity investments.
An allocation of up to 10% of the Pension Fund may be invested in such arrangements. The benchmark is currently a composite derived from the FTSE US and FTSE Europe (including UK) indices. However, the weighting in the overall customised benchmark set for the whole fund is adjusted quarter by quarter to reflect the amounts actually invested in private equity. This reflects the long term nature of the investment process in this asset class. Assets notionally allocated to private equity but not yet invested will be held in the in-house UK Equity Index Fund.

11.1.6 Bonds
Standard Life has been appointed to manage a corporate bond portfolio for the Fund. The benchmark for the bond portfolio is the Merrill Lynch Sterling Non Gilt All Stocks Index. The performance target is set at 0.8% p.a. outperformance of the benchmark, measured over rolling three year periods gross of fees.
A pooled bond fund has been selected as the most appropriate investment vehicle for the Fund's investment in this asset class. Constraints apply to the types of bonds the assets can be invested in; however the Fund does not have control over these constraints.

11.1.7 Property
A strategic allocation to property assets has been made of up to 15% of the total Fund value. This allocation is split between three mandates.

11.1.7.1 5% is invested in a defensive pooled property fund managed by Aviva Investors with a "high lease to value" approach. To reflect the low-risk characteristics of this fund, a tailored benchmark has been applied based on government bond indices. The benchmark is a composite of 50% FTSE Over 15 Year Gilts Index and 50% FTSE 5-15 Year Gilts Index.

11.1.7.2 6% is invested in a conventional (or "core") pooled property fund managed by Threadneedle which invests in UK offices, industrial and retail properties. The fund aims to outperform the CAPS UK Pooled Property benchmark by 1.0% (net of fees) over rolling three year periods.

11.1.7.3 Up to 4% is committed to be invested in a closed ended Private Equity Real Estate fund of funds managed by Franklin Templeton and which will be invested in equity or debt-related real estate investments around the globe. The fund's investment objective is to achieve an internal rate of return of 15% over the term of the fund (net of all management fees and carried interest).

11.1.8 Other Investments
The risk exposure from currency fluctuations associated with the overseas equity portfolios is managed through a passive hedging programme, targeted on the major currencies. The passive hedging is implemented by BNY Mellon at a level of 50% of the overseas developed market currency exposure arising from equity holdings outside the UK.

Managers are currently remunerated through fee scales based on percentage rates applied to the market value of funds under management. In most cases the rate reduces for funds under management above threshold values. Performance-related fee structures have been taken into account on retendering of fund manager contracts.

11.1.9 Exercise Of Shareholder Rights (Including Voting Rights)
The Pensions Sub-Committee takes its responsibilities as a company shareholder seriously and exercises its votes at company AGMs/EGMs wherever practically possible. The Panel has decided to use the Corporate Governance Service provided by Pension Investments Research Consultants (PIRC), and votes cast at UK, European and North American company AGMs will follow PIRC recommendations unless specifically agreed otherwise.

The Pensions Sub-Committee has also agreed a policy to extend voting to include its share holdings in the FTSE All Share and FTSE All World indices and currently uses the PIRC global research service to achieve this.

11.1.10 Social, Environmental or Ethical Considerations
The Pensions Sub-Committee takes the view that well-managed companies that evaluate and assess their social and environmental risks are likely to add shareholder value in the long term more successfully than companies that do not manage these risks. The Council continues to monitor its policies on socially responsible investment issues and will increase the use of its position as shareholder to actively engage with companies by appropriate means collectively or directly, to ensure best practice in the management of these risks and in line with the Council's 'Fairer Islington' corporate policy, and in particular the key policy objectives of promoting sustainability and regeneration.

The Pensions Sub-Committee has also decided to join with other local authorities to use its shareholder rights in a responsible manner to influence company behaviour, through membership of the Local Authority Pension Fund Forum (LAPFF), and supports the mission statement of the LAPFF:

> "The LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations"

The Pension Sub-Committee is a member of the Institutional Investors Group on Climate Change (IIGCC). The IIGCC seeks to promote better understanding of the implications of climate change amongst its members and other institutional investors. It also aims to promote a lower carbon economy by encouraging the companies and markets in which IIGCC members invest to address their approach to climate change issues.

11.1.11 Myners investment principles - compliance statement

In accordance with regulation 9A(3A) of the LGPS (Management and Investment of Funds) Regulations 1998, as amended, the Council is required to state the extent to which the administering authority comply with the ten principles of investment practice set out in the document published in April 2002 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5)"; and give the reasons for not complying where they do not do so. This CIPFA publication is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and adopted by the Government as a model for best practice in 2001.

The Myners Principles were reviewed by the NAPF during 2008 and a revised set of six principles were issued in October 2008. CIPFA expect to issue a new publication based on the revised six principles in the near future.

11.1.11.1Principle 1 - Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Compliance

The Fund is generally compliant with the requirements of this Principle. The Pensions Sub-Committee requires new members serving on the Sub-Committee to source appropriate training within six months of joining the Sub-Committee. The three-day course run by the Local Government Pensions Committee of the Employers Organisation is recognised as particularly relevant training for new Members, but other routes and courses, and requisite experience are also recognised as appropriate. Where several new Members are appointed together, tailor-made training will be considered.

11.1.11.2 Principle 2 - Clear Objectives

Trustees should set out an overall investment objective(s) for the Fund that takes account of the scheme’s liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Compliance

The Council seeks to undertake regular reviews of investment strategy, most recently in 2007, which take into account the scheme’s liabilities, the strength of the employer covenant and the attitude to risk of both the trustees and the sponsor.

11.1.11.3 Principle 3 - Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliance

In setting the investment strategy, the Trustees have considered the form and structure of liabilities, along with the strength of the sponsor covenant, risk of sponsor default and longevity risk, taking advice from independent professional advisors where appropriate.

11.1.11.4 Principle 4 - Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Compliance

Overall Fund performance and detailed portfolio performance is measured quarterly, annually and over longer periods by external independent measurement specialists (WM Company). Performance is also monitored against the local authority peer group of pension funds, also based on WM Company data (for the local authority universe), although in line with the Myners Principles the peer group is no longer considered the benchmark for overall fund performance. The overall benchmark is specific and customised to the Fund's objectives based on the outcome of the successive asset/liability studies.

Performance of the Fund is also subject to annual review by external auditors (the District Audit service) and by internal audit through regular audits programmed into the Audit Plan.

Pension benefits administration performance is reported regularly to Pensions Sub-Committee.

11.1.11.5 Principle 5 - Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Compliance

The Fund uses the proxy voting service, PIRC, to vote for the shares held within FTSE All Share and FTSE World indices.

RCM, who manage a global equity mandate, use the proxy voting service Shareholder Services (ISS) to vote on all other shares held on behalf of the Fund.

Newton, who manage a global equity mandate, vote in all other indices at their discretion.

The Fund encourages each active investment manager to take account of social, environmental and ethical considerations insofar as the manager believes such considerations will benefit performance and/or reduce risk.

For those assets of the Scheme managed in pooled funds, the Trustee accepts that the assets are subject to the investment manager's own policy on socially responsible investment. The Trustee is satisfied that this corresponds with its responsibilities to the beneficiaries.

The Fund's attitude to and policies regarding responsible ownership are set out within the body of the Fund's Statement of Investment Principles.

The Trustees issue member newsletters in which this discharge of responsibilities is noted.

Mercer has adopted the Institutional Shareholders' Committee Statement of Practice relating to investment consultants.

11.1.11.6 Principle 6 - Transparency and Reporting
Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

Compliance
The Council's SIP is currently published and available to scheme members on the Council website. Summaries of performance and monitoring of managers are reported in the Pension Fund Annual Report and distributed to employees each year with payslips. Further performance reporting is provided to contributors and pensioners at the AGM. The full Pension Fund Report and Accounts are published as part of the Council's overall Annual Report and Accounts and available to all members of the public.

Overall communication and publicity strategy for the Fund is set out in the Communications Policy Statement which is available on the Council's website.

APPENDIX A

From November 2011

STRATEGIC ASSET ALLOCATION	Target	i.e Permitted Range +/- %
UK Equities	**25.0%**	**3.0%**
Overseas Equities (50% currency hedged)	**25.0%**	**3.0%**
Global Private Equity	**10.0%**	**2.0%**
Total Equity	**60.0%**	**6.0%**
Corporate Bonds	**25.0%**	**2.5%**
Property	**15.0%**	**2.0%**
Cash	**0.0%**	**0.0%**
Total bonds/property/cash	**40.0%**	**4.0%**
Total	**100.0%**	

NB i) Both the private equity and property allocations are target allocations and are expected to be reached once committed assets are called and invested by the relevant investment managers. In the interim, the assets will be held in the UK Equity Index Fund.

ii) Over time the listed equity allocation will be adjusted from 25% UK and 25% overseas to 15% UK and 35% overseas.

APPENDIX B

Portfolio	Manager(s)	Sector/Market	Target Weight Within Portfolio at 11/2011	Permitted Range	Index
UK Index Fund	In-house	UK Equity	100%		FSTE All Share
Overseas Equity	LGIM	Regional oversea equity *:			
		i) North America	40%	+/- 4.0	FTSE AW Development North America
		ii) Europe (ex UK)	16%	+/- 1.5	FTSE AW Development Europe (ex UK)
		iii) Japan	7%	+/- 1.0	FTSE AW Japan
		iv) Asia Pacific (ex Japan)	7%	+/- 1.0	FTSE AW Development Asia Pacific (ex Japan)
		v) Emerging Market	30%	+/- 3.0	FTSE AW All Emerging
Global Equity	i) RCM	Global	40%	+/- 10.0	FTSE All World Index
	ii) Newton	Global	60%	+/- 10.0	
Global Private Equity	i) Standard Life (private equity) Ltd	Europe	50%	+/- 10.0	FTSE US
	ii) Pantheon	US	50%	+/- 10.0	FTSE Europe inc UK
Bond Portfolio	Standard Life	UK Non-Government	100%		Merrill Lynch Sterling Non Gilt All Stocks
Property Portfolio	i) Aviva Investors	HLV Property (Lime Property Fund)	33%		Composite Gilt index: 50% FTSE Over 15 yr Gilts 50% FTSE 5-15 yr Gilts
	ii) Threadneedle	Core UK Property	40%		CAPS Pooled Property
	iii) Franklin Templeton	Global real estate fund of funds	27%		n/a

* LGIM manage their own regional allocations so as to maintain the overall Fund allocation to be in line with the stated target weights. In order to do this they take into account the value of RCM and Newton’s portfolios and the regional allocations of the FTSE All World index.

11.2. Funding strategy statement

This Funding Strategy Statement (FSS) has been prepared by London Borough of Islington (the Administering Authority) to set out the funding strategy for the Islington Council Pension Fund (the ICPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

11.2.1. Introduction

The Local Government Pension Scheme) (Administration) Regulations 2008 (as amended) ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the fund the Administering Authority will prepare and publish their funding strategy;

- In preparing the FSS, the Administering Authority must have regard to :-

- the guidance issued by CIPFA for this purpose; and

- the Statement of Investment Principles (SIP) for the ICPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the ICPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The ICPF is part of the Local Government Pension Scheme (LGPS) which is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) Changes to the benefits under the Scheme took place from April 2008. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the ICPF should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

11.2.2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the ICPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

11.2.3. Aims and purpose of the ICPF

The aims of the fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

11.2.4. Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions

- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the ICPF's performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS.
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

11.2.5. Solvency issues and target funding levels

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities, (the funding target) assessed on an ongoing basis including allowance for projected final pay.

The financial assumptions making up the funding strategy and as adopted for the 2010 actuarial valuation are:

- The extent to which the Fund's investments are expected to outperform a portfolio of Government bonds ("asset outperformance assumption" - AOA). An AOA of 2.0% per annum has been assumed in respect of pre-retirement liabilities, and 1.0% per annum in respect of post-retirement liabilities.
- The expected rate of Pensionable Pay increases above CPI price inflation ("real Pensionable Pay growth"). This has been assumed to be 1.75% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the “pre-retirement” (i.e. active and deferred pensioner) liabilities than for the “post-retirement” (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.4% p.a. has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

The real rate of pensionable pay inflation relates to pay increases for Fund members during their period of employment. If the actual rate of pensionable pay inflation is greater than the actuary’s assumption the Fund deficit will increase; if it is lower then the Fund deficit will reduce.

The rate of price inflation applies primarily to pensions in payment and the assumption incorporates an adjustment to allow for supply/demand distortions in the bond market which is used to derive the market implied rate as at the valuation date. The rate of price inflation is important as retirement pensions are increased each April by the Consumer Price Index applying in the previous September. This is a departure from the historic approach based on the Retail Price Index and was announced by the Chancellor in his Emergency Budget in June 2010 and will apply from April 2011. The above assumptions make due allowance for this revised basis of indexation as advised by the Actuary.

Demographic Assumptions

The 2010 valuation takes into account modified longevity, ill health and proportions married assumptions compared to that adopted at the previous valuation following an analysis of Fund experience carried out by the Fund Actuary. It also assumes that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, builds in a minimum level of longevity “improvement” year on year in the future.

For retirements in good health the mortality tables used are those in line with SAPS P tables (weighted to be specific to the ICPF membership). For future improvements in life expectancy, an allowance has been made in line with the CMI model released in 2009, with minimum long-term improvements of 1% per annum.

Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older.

Early retirement

Some members are entitled to receive their benefits (or a part of their benefits), accrued prior to 1 April 2008, unreduced from an age prior to the Fund’s normal pension age under the “Rule of 85” provisions of the Regulations. This age will be at some point between ages 60 and 65, depending on the length of a member’s pensionable service. The calculations in respect of past service prior to 1 April 2008 allow for a proportion of the active membership to retire in normal health prior to age 65.

For past service post 31 March 2008, and for future service the situation is different since the "Rule of 85" rule was removed for service from 1 April 2008 (October 2006 for new entrants to the Scheme). For these service tranches, we have assumed the earliest age at which unreduced benefits become an entitlement is 65 except for those members who have protected status under the transitional provisions.

No allowance has been made for non-ill health early retirements prior to age 60. Additional capital contributions will be paid by employers in respect of the cost of these retirements normally over a period of no more than 3 years.

In addition, for some employers, no allowance has been made for ill-health early retirements taking place. Additional capital contributions will therefore be required to be paid by these employers in respect of the cost of these retirements, normally over a period of no more than 3 years.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1p.a. of pension given up.

Underlying these assumptions are the following two tenets:

- that the ICPF and Islington Council are expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

The current actuarial valuation of the ICPF is effective as at 31 March 2010. The results of the valuation indicate that overall the assets of the ICPF represented 72% of projected accrued liabilities at the valuation date.

The investment performance of the Fund will be allocated on a pro-rata basis to each employer's notional asset share, unless agreed otherwise with the Administering Authority.

All costs in relation to non-ill health early retirement costs (and ill-health retirement costs for some employers) will be funded as they occur over a maximum period of 3 years, depending on the terms of the agreement with the Administering Authority. These costs will be assessed on the basis of the actuary's advice.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives to achieve the funding target and the minimum contribution required by the employers:

Groupings

- A grouped approach will be adopted for certain employers of the Fund, namely the LEA Schools and certain other employers within the Fund have been grouped with Islington Council

Deficit Recovery Periods

- A maximum deficit recovery period of 25 years will apply for scheme employers and 25 years for admitted bodies. Shorter periods will also apply for employers who have a limited participation in the Fund. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.

- In determining the deficit recovery period(s) the Administering Authority has had regard to:

    - the responses made to the consultation with employers on the FSS principles
    - the size of the funding shortfall and the business plans of the employer
    - any contingent security available to the Fund or offered by the Employer such as a guarantor or bond arrangements, charge over assets etc,
    - the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
    - the Administering Authority's views on the strength of the participating employers' covenants, and security of future income streams, in achieving the objective.

Employer Contributions

- In current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result, in addition to the maximum deficit recovery period of 25 years, the Fund will operate a default recovery period, set at the remainder of an employer's 2007 recovery period, both for scheduled and resolution bodies and also for non Transferee admission bodies at the 2010 valuation e.g. 22 years for a 2007 recovery period of 25 years. All employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in overall contributions would be allowed.

- With effect from April 2011, employer contributions will be expressed and certified as two separate elements:

    - a percentage of pensionable payroll in respect of future accrual of benefits
    - a schedule of £s amounts over 2011/14, building in an allowance for increases annually in line with the valuation funding assumption for CPI price inflation, in respect of the past service deficit,

  The above rates will be subject to review from April 2014 based on the results of the 2013 actuarial valuation.

  Where an employer is in a surplus position at the valuation date, the Administering Authority, following advice from the Actuary, may opt to express the required contributions as a single % of pensionable pay (adjusted for any surplus as required)

- Unless agreed otherwise by the relevant Scheme Employer, any Transferee admission bodies will be treated in the same way as the original Scheme Employer.

- Where increases in employer contribution rates are required from 1 April 2011, following completion of the 2010 actuarial valuation, the increase to the rate of deficit recovery contributions payable in the year 20010/11 may be implemented in steps, over a maximum period of 3 years.

In certain instances, and in particular for ICPF employers which are considered by the Administering Authority to provide a high level of financial covenant, an allowance may be made as part of the Recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. This higher level of return assumed will, in particular reflect the actual investment strategy of the ICPF, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in section 7.

Cessation

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

11.2.6. The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall in assets below the funding target, contributions will be required from employers to meet the cost of future accrual of benefits for members after the valuation date ("the normal cost"). The long-term smoothed future service basis for the 2010 valuation is consistent with that adopted for the previous valuation and assumes a real discount rate in excess of price inflation of 3.75% per annum (pre and post retirement).

11.2.7. Link to investment policy set out in the Statement of Investment Principles

The results of the 2010 valuation show the liabilities to be 72% covered by the current assets, with the funding deficit of 28% being covered by future deficit contributions.

In assessing the value of the ICPF's liabilities in the valuation, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the ICPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio that closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the ICPF's assets in line with the least risk portfolio would minimise fluctuations in the ICPF's ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

ASSET ALLOCATION	Target
UK equities	34%
Overseas equities (50% currency hedged	33%
Global Private Equity	3%
Total equities	70%
UK index linked	0%
UK fixed interest	0%
Overseas bonds	0%
Corporate bonds	25%
Property (high lease to value)	5%
Cash	0%
Total bonds/property/cash	30.0%
Total	100.0%

The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2.0% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities. Based on the liability profile of the ICPF at the valuation, this equates to an overall asset out-performance allowance of 1.4% p.a. in the short term to keep pace with the liabilities. The Administering Authority believes that this is a reasonable prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

During the recovery period, an overall asset-out performance allowance of 3.0% p.a. has been allowed for in the calculation of the required deficit recovery contributions for certain employers in the ICPF. The Administering Authority believes that this is a reasonable "best estimate" allowance for asset out-performance during the recovery period, based on the investment strategy as set out in the SIP and following analysis undertaken by the Actuary.

11.2.8. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the ICPF is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the ICPF's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out-performance assumed in the long term.

The CIPFA guidance identifies the following key risks:

11.2.8.1 Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

11.2.8.2 Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements

11.2.8.3 Regulatory

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or Inland Revenue rules

11.2.8.4 Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

11.2.8.4.1 Existing governance arrangements

The Pensions Sub-Committee will meet at least four times per year to monitor fund performance quarterly. In addition an Annual General Meeting for scheme members is normally held in December.

The Pensions Sub-Committee is comprised of four Councillors with nominated substitutes and five non-voting observers as follows:

- Pensioner representative
- Representative from Community Service Volunteers (CSV - an "admitted body" to the fund)
- Three trade union observers

Decision procedures follow procedures laid down for all Council committees in the Council Constitution and can be viewed under “Committee Meetings and papers” on the Council’s website at www.islington.gov.uk. Members of the Pensions Sub-Committee are appointed at the Annual Council meeting in May.

Member training is important, as the Council must take into account recommendations of the Myners Review of Institutional Investment in the UK. The review generated 10 investment principles that LGPS Funds should comply with. One of the principles requires committee members to receive regular training to enable them to make effective decisions, to be made aware of their responsibilities and be reminded of their stewardship role. Members of the Pensions Sub-Committee therefore need to take up available training opportunities in order for the Council to be able to demonstrate compliance with Myners principles.

11.2.9. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with participating employers.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the ICPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the ICPF.

11.3. Governance policy statement

This statement is prepared for the purposes of the Local Government Pension Scheme (Amendment) (No 2) Regulations 2005. It sets out the policy of Islington Council as the administering authority in relation to its governance responsibilities for the local government pension scheme.

This governance policy statement ultimately sets out to be a comprehensive summary of all aspects of pension scheme governance, communication and risk management.

11.3.1. Overall governance framework

The council as administering authority, with its advisers has identified the following key areas (the “five principles”) to support its overall governance framework.

- Effective board delegation
- Written plan policies

- Appropriate accountability
- Effective information flow
- Rigorous supervision and monitoring

The governance framework focuses on:

- The effectiveness of the pensions sub-committee and officers to which delegated function has been passed. This will include areas such as decision making processes, knowledge and competencies.
- Whether policies are established and to what degree they are recorded.
- Clarity of areas of responsibility between officers and pensions sub-committee members.
- The ability of the pensions sub-committee and officers to communicate clearly and regularly with all stakeholders.
- The ability of the pensions sub-committee or officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

Overall responsibility for the governance of the Local government pension scheme and for this document resides with the corporate services committee.

11.3.2. Delegation of functions
Governance principles: Effective board delegation; appropriate accountability

The following functions are delegated by the pensions sub-committee:

11.3.2.1 Scheme administration
Including, but not exclusively, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes.

Delegated to the Director of Finance.

11.3.2.2 Funding
Including, but not exclusively, setting of the appropriate funding target for the local government pension scheme. The council's constitution records that the allocation of resources to the pension fund is a function of the executive.

The Director of Finance shall be responsible for maintaining the Funding Strategy Statement (please see 9.3.4.5. Relevant documents).

11.3.2.3 Investment
The council constitution records that the following issues are delegated to the pensions sub-committee in relation to investment:

- To administer all matters concerning the council's pension investments in accordance with the law and council policy.
- To establish a strategy for disposition of the pension investment portfolio.
- To determine the delegation of powers of management of the fund and to set boundaries for the manager's discretion.
- To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the Investment Managers.

The Director of Finance shall work with the fund's advisors and service providers to bring to the attention of the pensions sub-committee any issues of concern which may require decision by the sub-committee in these areas of policy. This will include but not be limited to, setting of an appropriate investment strategy, selection of investment managers, setting of performance benchmarks and monitoring of performance.

The pensions sub-committee will make the final decision on appointment of new managers, and termination of contracts for existing managers.

The Director of Finance shall be responsible for maintaining the Statement of Investment Principles (please see 9.3.4.5. Relevant documents).

11.3.2.4 Communications
Governance principle: Effective information flow

Including setting of communication strategy, issuing, or arranging to be issued, benefit statements, annual newsletters, shortened annual report.

The Director of Finance shall be responsible for making all arrangements for the Annual General Meeting.

The Director of Finance shall be responsible for making all arrangements for an Annual Employers' Consultation meeting where admitted/scheduled employers may be informed of current developments and be offered the opportunity to feedback views. The outcome of this meeting shall be reported to the next available pensions sub-committee meeting.

The Director of Finance shall be responsible for maintaining the Communications Policy Statement (This is published as part of this statement and is attached as Appendix 2).

11.3.2.5. Risk management
Including the identification, evaluation and monitoring of risks inherent within the local government pension scheme. The Director of Finance shall be responsible for compiling and maintaining a risk register.

Delegated to the Director of Finance.

11.3.3. Terms of reference and decision making
Governance principle: Effective board / delegation; written plan policies

The council constitution records the responsibilities within the committee structure as follows:

Corporate services committee: matters delegated to the pensions sub-committee:

- To consider policy matters in relation to the pension scheme, including the policy in relation to early retirements
- To administer all matters concerning the council's pension investments in accordance with the law and council policy.
- To establish a strategy for disposition of the pension investment portfolio.
- To determine the delegation of powers of management of the fund and to set boundaries for the manager's discretion.

- To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the Investment Managers. (Note: The allocation of resources to the pension fund is a function of the Executive)."

The rules for conduct of pensions sub-committee are those laid out in the procedure rules stated in the council's constitution and published on the council's website under **www.islington.gov.uk/council.**

The constitution also defines that day to day management of the pension fund is delegated to the Director of Finance.

11.3.3.1. Structure of pensions sub-committee and representation
Governance principle: Effective boards / delegation

The pensions sub-committee shall be made up of the following:

- Four councillors with nominated substitutes, with voting rights
- Observers as follows:
  - Elected pensioner representative
  - Representative from Community Service Volunteers (CSV)
  - Two trade union observers

Observers are encouraged to take a full part in the meeting, but do not have voting rights.

The pensioner representative shall be elected by ballot of all pensioner members

The pensions sub-committee also receives advice from Mercer and from AllenbridgeEpic Investment Advisers.

11.3.4 Operational procedures

11.3.4.1 Frequency of meetings
Governance principle: Effective board / delegation

The pensions sub-committee shall convene no less frequently than 4 times per year.

An Annual General Meeting will also be held where all scheme members will be entitled to attend, including admitted bodies and scheduled bodies.

11.3.4.2 Competencies, knowledge and understanding
Governance principle: Effective board / delegation

Members of pensions sub-committee shall undertake to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge etc is evaluated on an annual basis to identify any training or educational needs of the sub-committee.

11.3.4.3 Reporting and monitoring
Governance principle: Rigorous supervision and monitoring

The pensions sub-committee shall receive detailed performance reports relating to the investment of the fund assets, on a quarterly basis. An annual review of performance of the whole fund to 31 March of each year will also be considered by the pensions sub-committee as soon as possible after the end of the financial year.

Fund managers will be called to make presentations on their performance to the pensions sub-committee, as a minimum, annually. Managers will be seen regularly by the Director of Finance between these presentations in line with requirements of the regulations.

Pensions sub-committee shall also receive reports prepared by the fund actuary after the triennial revaluation has been carried out, and shall seek further advice on the investment policy and goals of the fund and whether policy changes are required to ensure the funding strategy is fulfilled.

11.3.4.4 Review of this policy statement
Responsibility for this document resides with the pensions sub-committee. It will be reviewed no less frequently than annually and where changes are necessary they will be agreed at a meeting of pensions sub-committee. This document will be reviewed if there are any material changes in the administering authority's governance policy.

11.3.4.5. Relevant documents

Funding Strategy Statement
The current published Funding Strategy Statement is online at
www.islington.gov.uk/advice/council_pension_scheme.

Statement of Investment Principles
The current published Statement of Investment Principles is online at
www.islington.gov.uk/advice/council_pension_scheme.

11.4 Communication policy statement
The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 require each administering authority to prepare, maintain and publish a statement by 1April 2006 setting out its policy on communicating with members, their representatives, prospective members and employers participating in the pension fund.

The statement must set out the policy on:

- the provision of information and publicity about the scheme to active members, deferred and pensioner members.

- the format, frequency and method of distributing information and publicity.

- the promotion of the scheme to prospective members and to other participating employers.

Any change in policy would require the policy statement to be revised and re-published.

For a number of years the council has adopted a variety of types of communication, and the requirements of the new regulations are a platform upon which communications can be expanded. However the requirement to produce a formal policy does constitute a major change in practice.

The methods of communication will be as follows:

11.4.1. Active Members
A pension's newsletter given to employers for distribution to employees. To be produced periodically. Annual benefit statements sent to home addresses.

Alerts on the council intranet and internet regarding changes to the local government pension scheme regulations.

An Annual General Meeting. These meetings have been an annual event since the mid 1990's.

An annual meeting with admitted body employers. Such meetings have been held since 2000.

Briefing notes to employers participating in the pension fund when necessary.

Publicity and option to join forms on a periodic basis to non scheme member employees who are eligible to be members of the LGPS.

11.4.2. Deferred Members
Annual benefits statement sent to home addresses.

Information regarding the local government pension scheme (LGPS) and Islington Council policies will be provided on the council's website.

11.4.3. Pensioner Members
A pension's newsletter sent to home addresses. To be produced periodically.

Information regarding the local government pension scheme (LGPS) and council policies will be provided on Islington Council's website.

11.4.4. Employers
Updates on changes and proposed changes to the LGPS to be provided by letter or email.

Information on decisions that employers need to make in respect of the LGPS to be issued as necessary.

Pension fund accounts to be posted or emailed each year. Additional newsletters will be provided if necessary.

11.5 Governance compliance statement
11.5.1. Structure

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council ';'

b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee':'

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels ':'

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

Compliance

a) The council constitution clearly sets out that responsibility for the management of the pension fund resides with pension sub-committee.

b) The pension-sub committee comprises of three trade union observer, an admitted body observer and a pensioner representative.

c) There is no secondary committee.

d) There is no secondary committee and therefore no allocation for a member.

11.5.2. Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :
    - employing authorities (including non-scheme employers, eg, admitted bodies':'
    - scheme members (including deferred and pensioner scheme members':'
    - independent professional observer and
    - expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Compliance

a) The pension-sub committee comprises of three trade union observers, an admitted body observer and a pensioner representative. The sub-committee has also appointed in independent adviser who attends all the quarterly meetings.

b) All the members of the pension sub-committee are distributed papers and reports five working days before the meetings are held.

11.5.3. Selection and role of lay members

That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

Compliance

Members of the pension sub-committee are aware of their roles and responsibilities

11.5.4. Voting

The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committee.

Compliance

No clear justification for not extending voting rights but all members are allowed to express their opinion during meetings.

11.5.5. Training, facility time and expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

Compliance

a) Training is made available to members of the pension sub- committee to assist them in the decision making process. Expenses are reimbursed for activities undertaken to perform their role.

b) Whenever possible training is arranged to accommodate all members.

11.5.6. Meetings frequency and quorum

a) That an administering authority's main committee or committees meet at least quarterly.

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

Compliance

a) The pension sub-committee meets at least 4 times a year.

b) No secondary committee.

c) Not required since there is representation of stakeholders.

11.5.7. Access

That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

Compliance

The pension sub-committee papers are sent to members at least 5 working days prior to the meeting.

11.5.8. Scope

That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

Compliance

The Pensions Sub-Committee already considers a wider range of pension fund issues outside of investment.

11.5.9. Publicity

That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements**.**

Compliance
The council's governance policy statement was consulted upon prior to publication. The council also holds pension AGMs for all its members to highlight performance and activities undertaken during the year and publishes a separate pension fund annual report. All quarterly meetings are open to the public.

12: More information and comments

More information about the pension fund is on izzi at My Employment> Pay and conditions> Pensions

If you have any questions or comments, please contact the pensions fund team

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