

# **London Borough of Islington Pension Fund Annual Report 2016/17**

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# Foreword

Dear Pension Scheme Member

Welcome to the Islington Council pension fund annual report for the 2016/17 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.

This year has been very eventful, crowned by the triggering of Article 50, and our eventual exit from the European Union. The domestic market was largely unruffled by Brexit fears, and had a positive outlook on growth. The fall in the pound sterling has increased the value of our overseas assets. Globally equity markets rose by double digits while bond markets and property rose modestly. The fund returned 16.1% and increased its market value by £167million mainly driven by our equities allocation. Implementation of our strategy continued and we appointed an Emerging and Frontier Equity Manager in September 2016. The 2016 triennial actuarial valuation was concluded by the end of March 2017.

Asset pooling continues and our passive equity funds with Legal and General are now part of the London CIV pooled fund under a segregated platform. Members also agreed to transition our Newton Global Equity Fund to the London CIV.

The Pensions-Sub Committee with consultation with the Pension Board have agreed a new Investment Strategy Statement. Environment, Social and Governance(ESG) considerations are an integral part of the Fund's strategy and its approach to being a long term investor. The Committee expects its investment managers to include information on how carbon risk is being managed within their respective portfolios as part of regular reporting for the Fund. The Committee believes in engagement with carbon intensive companies and that this will enhance returns in the long term.

At the same time, the Fund decided to reduce its exposure to carbon intensive companies and assets and has switched its passive benchmarks to low carbon variants of the standard index. The Fund's internally managed passive equities are now tracking the FTSE UK Low Carbon Index and the externally-managed passive equities are now benchmarked against the MSCI World Low Carbon Index. As a result of these changes in July and August 2017 the Fund has a very much lower carbon footprint than a 'normal' equity portfolio, a reduction of 45%. The Committee is reviewing opportunities in other asset classes, to reduce the Fund's carbon footprint further.

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).

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

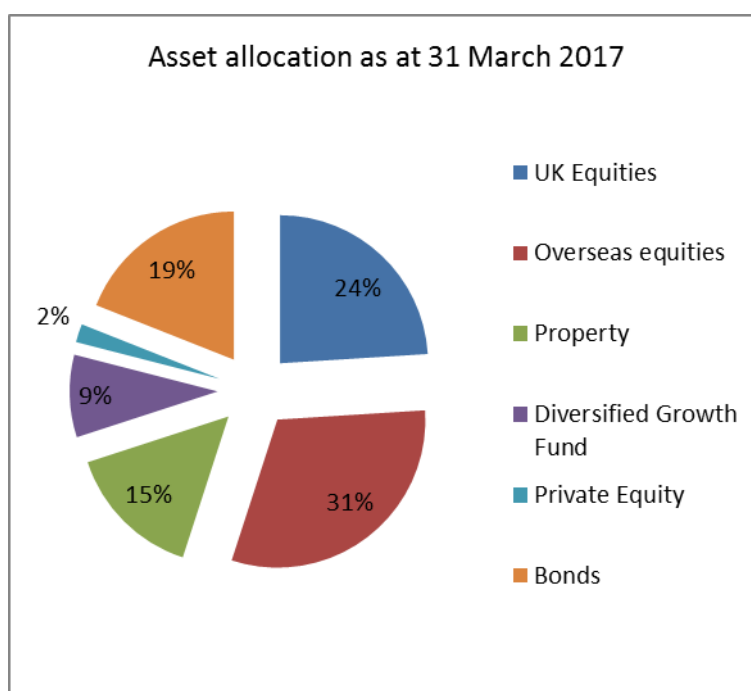
Cllr Dave Poyser  
Chair of Islington Pension Board

Cllr Richard Greening  
Chair of Pensions Sub-Committee

# 1: Investment report

The 2016/17 year saw the average local authority fund return just over 20%. Equities returned around 30% for the year and asset allocation had a greater impact on funds absolute return than active management effect. Heavily weighted equity Funds with overseas assets benefited from the weakening of Sterling during the year and performed substantially well compared to funds with fixed income, property and cash linked assets.

During the year to 31 March 2017 the fund's asset allocation was as follows;



The agreed strategic asset allocation is as follows;

Equities	Property	Diversified growth fund	Corporate bond	Infrastructure
50%	20%	10%	10%	10%

## 1.1. Fund manager performance (BNY Mellon Performance Services)

The table below shows our portfolio fund managers' value of assets under management and their 12- month performance to 31 March 2017

Manager	Mandate	Market value £'000	12-month return %
Islington Council Treasury team	UK equities	295,600	21.8
London LGPS CIV Allianz sub fund (RCM)	Global equities	98,300	30.0

<b>Manager</b>	<b>Mandate</b>	<b>Market value £'000</b>	<b>12-month return %</b>
Newton	Global equities	188,900	23.7
Legal and General	Emerging equities	97,600	40.1
Standard Life	Corporate bonds	244,300	9.3
Aviva	Property	59,500	5.7
Columbia Threadneedle	Property	76,900	3.6
Franklin Templeton	Property	20,700	21.6
Standard Life	Private equity	20,600	5.9
Pantheon	Private equity	11,600	
BNY Mellon(1)	Cash deposits	5,900	n/a
Hearthstone	Property	26,500	2.3
Schroders	Multi Asset	107,200	10.6
<b>Total Market Value</b>		<b>1,253,600</b>	

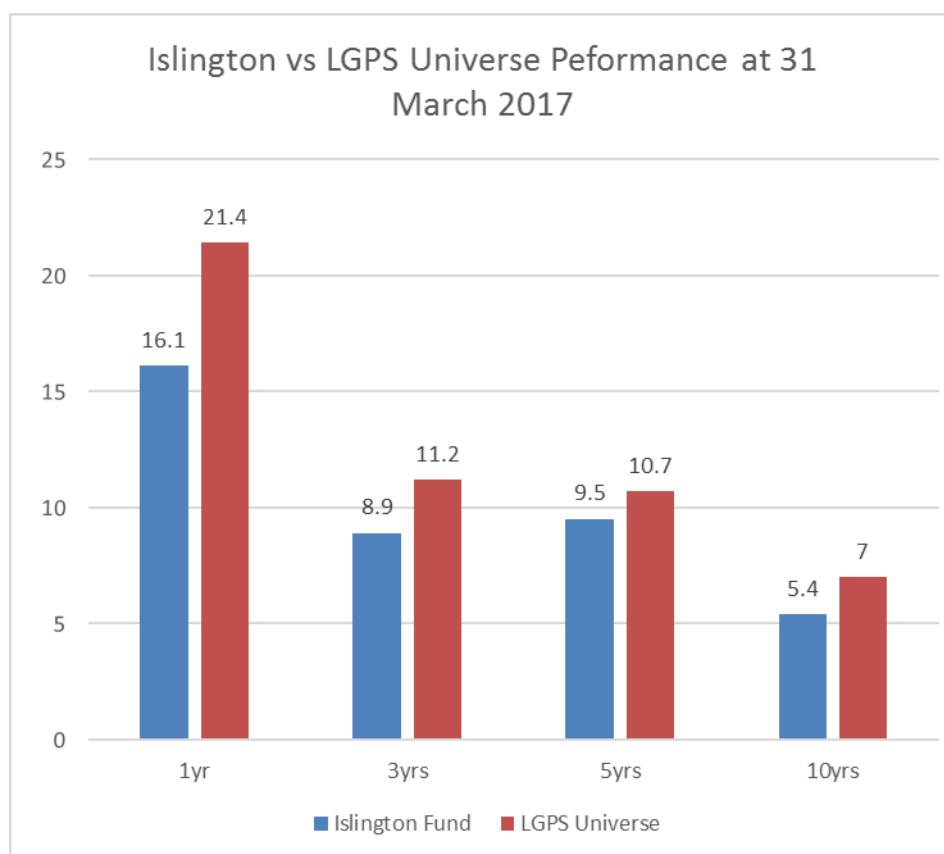
(1) BNY Mellon hedge overseas equities holdings

**1.2** 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, and five, years compared to its customised benchmark.

<b>Period</b>	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>
Fund return per annum %	16.1	8.9	9.5
Benchmark%	16.2	8.9	9.5

Over the 20- year period the fund has returned 6.7% per annum in absolute terms.

The Islington Council pension fund also compares itself against its peers through the league table compiled by the Local Authority Pension Performance Analytics. The graph below shows the pension fund compared to the average performance of the universe over the 1, 3, 5 and 10 year periods.



Our funds relatively low exposure to equities 55% compared to the average 62% and the high exposure to property which was one of the worst performing assets explains our below average performance.

The 15 Top Holdings in our segregated equity accounts are listed in the table below as at 31 March 2017.

INSTITUTION	MARKET VALUE £'000
ROYAL DUTCH SHELL PLC	20,874
HSBC HOLDINGS PLC	15,725
BRITISH AMERICA	12,365
BP	10,289
GLAXOSMITH	10,050
MICROSOFT COM	9,156
ASTRAZENECA PLC	7,752
APPLE INC	7,484
DIAGEO PLC	7,197
VODAFONE GROUP PLC	6,870
ALPHABET INC	6,720
RECKITT BENCKISER GROUP PLC	5,995
UNILEVER PLC	5,987
PRUDENTIAL	5,389
CITI GROUP	5,088



## 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 2019 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 May 2017 are:

- ◆ To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund value for money and a reduction in managers' fees wherever possible 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 and pooling

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 value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities
- 2016 Actuarial Valuation was consulted on and signed off 31/3/17
- Members after consulting with the London CIV are now to agree a tendering plan on infrastructure
- An equities emerging market manager was appointed in September 2016 and was seeded in May'17
- BNY Mellon contract was reviewed and updated to conform to new regulations and combine all services including performance monitoring
- The Investment Strategy Statement that replaces SIP was drafted, consulted and published by 1 April 2017
- 2016 Funding Strategy Statement was also consulted on and published by 1 April 2017
- ◆ To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members.
- Pension Board on reviewing resources have recommended extra resources in order to deliver a high standard of services
- Deferred benefit statements were sent out in July 2017
- 2016 Annual benefit statement were sent out in October 2016
- Communications policy was reviewed by the Pension Board in September 2016

- AGM chaired by the Pension Board Chair person was held in October 2016 and copies of the Pension Annual Report for 2015/16 were distributed.
- ◆ To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability
  - Work with LAPFF and IIGCC continues
  - Members continue to attend AGMs of companies as shareholders to exercise our voting rights and speak to company directors
  - Members reviewed the carbon footprint of its equities portfolio and after a series of training and presentations agreed to lower its existing footprint by restructuring its passive equities to low carbon benchmarks. Implementation should complete by July with an up a 50% reduction.
  - Low carbon alternatives on property and bonds are now being explored
- ◆ To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
  - A key man change triggered a review of our property manager Hearthstone mandate.
  - Joint training sessions are now scheduled with the Local Islington Pension Board to keep both members abreast with investment issues
  - Active Frontier and emerging market manager has been seeded to replace a passive emerging market manager
  - Training sessions before and during and committee meetings continue.
- ◆ To develop collaboration opportunities with other funds for sharing of services and pooling
  - The Fund as an active member of the London CIV continues to work on policy and investment issues
  - The passive LGIM mandates where pooled under a CIV negotiated lower fee even though it sits off the platform
  - Newton mandate was transition to Newton London CIV platform in May 2017
  - Another 5 new global equities sub funds have been appointed unto the London CIV platform to offer boroughs alternative investment managers .

## 3. Exercise of shareholder rights -voting

3.1 The Pensions Sub-Committee takes its responsibilities as a company shareholder seriously and exercises its votes at company AGMs/EGMs wherever practically possible. The Sub-Committee uses the Corporate Governance Service provided by Pension Investments Research Consultants (PIRC), and casts votes at all UK, European and North American company AGMs in line with PIRC recommendations unless the Council decides otherwise

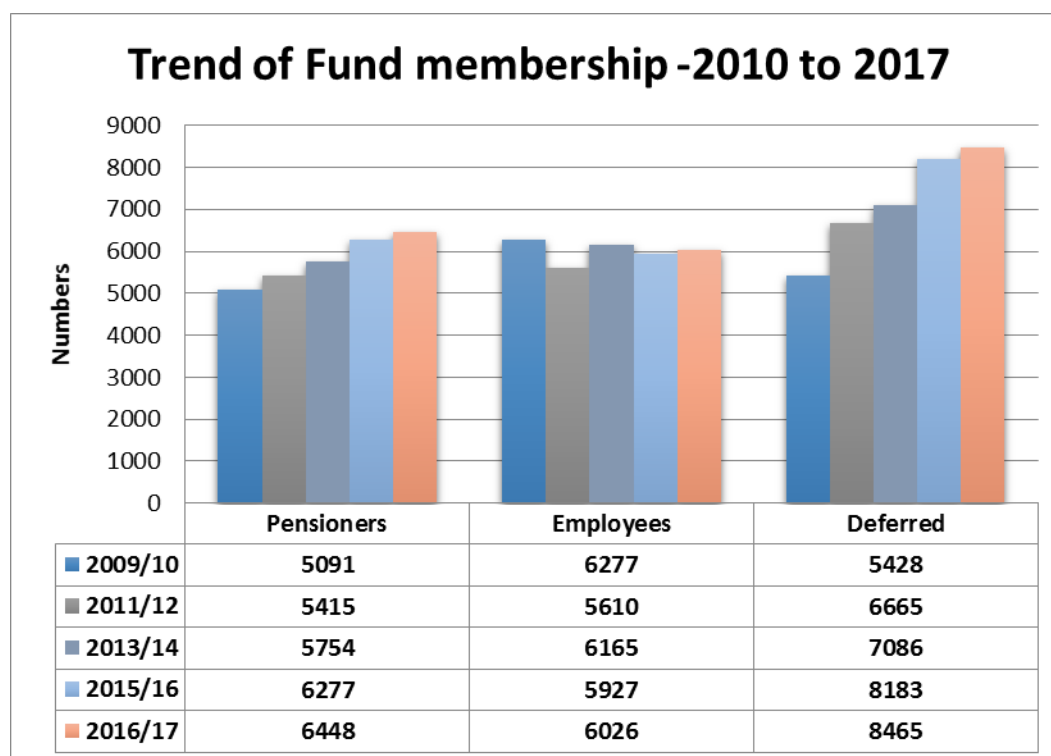
3.2 The table below lists the voting record by region at company annual meetings for the quarter ending 31 March 2017

Region	For	Abstain	Oppose	Total
UK & British Overseas	389	44	96	<b>529</b>
Europe & Global EU	51	5	11	<b>67</b>
USA & Canada	27	1	29	<b>57</b>
Japan	14	0	0	<b>14</b>
<b>Total</b>	<b>481</b>	<b>50</b>	<b>136</b>	<b>667</b>

## 4: The local government pension scheme

### 4.1. Membership

The scheme membership continues to grow year on year. Deferred members and pensioners are increasing at the expense of active employees. The profile from 2010 to 2017 is shown below.



The total membership over the same period is as follows:

March 2010	16,796
March 2011	17,495
March 2012	17,690
March 2013	18,119
March 2014	19,005
March 2015	19,781
March 2016	20,387
March 2017	20,939

## **4.2 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') to the leaving/retiring date. For membership to 31 March 2008 the Pension calculation is final pay x years and days of service x 1/80, and for membership from 1 April 2008 to 31 March 2014 the Pension is final pay x years and days of service x 1/60.

For membership in respect of service from 1 April 2014 the Pension calculation is the 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 termed 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 applies.

The LGPS is a 'funded', 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 in respect of scheme membership to 31 March 2008
- life assurance cover of three times a member's' yearly pay from the first day of joining the scheme
- a pension for spouses, Civil Partners, 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).

#### 4.2.1 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 £21,201.00 to £34,400.00 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 £13,700	5.5
£13,701 to £21,400	5.8
£21,401 to £34,700	6.5
£34,701 to £43,900	6.8
£43,901 to £61,300	8.5
£61,301 to £86,800	9.9
£86,801 to £102,200	10.5
£102,201 to £153,300	11.4
More than £153,300	12.5

Since April 2014 there has no longer been a standard 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 and beyond. To find out your own state pension age please see the following link: [www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension)

#### 4.3 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. 'Auto-enrolment' rules mean that employees who opt-out of the scheme are 're-enrolled' every three years. Any person who had opted out of the scheme before 1<sup>st</sup> April 2013 is being 're-enrolled' on 1<sup>st</sup> October 2017.

#### 4.4 Pension administration performance

The table below gives the data for the average performance for the year to 31 March 2017, in respect of the main procedures.

Process	Target days to complete	Volume	Target % Achievement	% Achieved within target days	Actual average days
Deaths	5	94	95%	91.49%	4.31
Retirement benefits	5	248	95%	83.87%	4.05
Pension estimates	10	432	95%	86.11%	8.43
Preserved benefit calculations	15	240	95%	86.87%	14.64
Transfer-in quotation	10	21	95%	85.71%	10.57
Transfer-in actual	10	37	95%	83.78%	5.43
Transfer out quotation	15	48	95%	81.25%	14.19
Transfer out actual	12.5	35	95%	88.57%	4.91

Over the period, 88.29% of the 1,998 processes undertaken by the Pensions Administration team were completed within the target days.

#### 4.5 Contacts

##### 4.5.1 Retired Members' Representative

Thelma Harvey and Marion Oliver share the role as your Representative.

They are not able to settle any difficulty you may experience regarding matters such as benefits claims or income tax problems, but they may be able to give some guidance or point you in the right direction to obtain guidance.

For problems not related to your Islington Pension telephone contact can be made as follows:

Thelma Harvey - Email contact [thelma8a@gmail.com](mailto:thelma8a@gmail.com)

Marion Oliver – Email contact [marionoliverislington@outlook.com](mailto:marionoliverislington@outlook.com)

##### 4.5.2 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, Third 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:

<b><u>Surname range</u></b>	<b><u>Telephone enquiries</u></b>	<b><u>Email enquiries</u></b>
A – CARS	020 7527 2993	sarah.watts@islington.gov.uk
CART – GOP	020 7527 2409	algie.theodoric@islington.gov.uk
GOR – MACH	020 7527 4492	kelly.thompson@islington.gov.uk
MACK – Q	020 7527 2165	partricia.assam@islington.gov.uk
R – SO	020 7257 2167	kelly.thompson@islington.gov.uk
SP – Z	020 7527 2800	daljit.bhangal@islington.gov.uk

### **4.6 Frequently asked questions**

**4.6.1** A frequently asked question and answers has been prepared below for all scheme members. There are separate sections for current employers, deferred members and those in receipt of pensions:

#### **4.6.2 Questions for current members of the Local Government Pension Scheme ('LGPS')**

##### ***1. Why should I be a member of the LGPS?***

An employee who has been member of the scheme for at least two years is guaranteed a pension based on salary and length of service, and it is not affected by ups and downs in the stock market. Also from the first date of membership there is a lump sum of 3 times annual salary payable upon death, whilst you remain in employment.

##### ***2. Do I get income tax relief on my pension deductions?***

Yes, the pension contribution reduces the pay upon which income tax is assessed. As a consequence, you get 20% tax relief if a standard tax rate payer, or 40% if you are a higher rate payer.

##### ***3. Will the amount I pay into the pension change?***

The level of contributions you pay will depend upon your salary. The percentage contribution ranges from 5.5% to 12.5% (if salary exceeds £153,301.00 a year). The average rate is 6.5%.

##### ***4. If my pay rises will the pension rise?***

Yes, the pension you earn each year is the salary for the particular year divided by 49. Also at the end of each year the value of the pension changes in accordance with the Consumer Prices Index.

##### ***5. Is any of my pension based on salary over the final year of employment?***

Yes, any LGPS membership before 1st April 2014 provides a pension based on the final salary.

##### ***6. What happens if I leave employment with Islington Council before age 55?***

If you leave with less than 2 years LGPS membership and are not going to another Local Government job you could choose to have a refund of pension contributions (minus an adjustment for the income tax relief), or you could transfer the value of your LGPS pension to another pension arrangement.

If you leave and have at least 2 years LGPS membership and are not going to another Local Government job, there is entitlement to a deferred pension. As an alternative you could transfer the value of your LGPS pension to another pension arrangement.

#### *7. What happens if I move to a lower paid grade, will it affect my pension?*

If you joined the LGPS from 1 April 2014 and you move to a lower paid post your pay will reduce therefore the pension you build up will be less. Your pay in each Scheme year (April to March) is used in the calculation of your retirement benefits.

If you joined the LGPS before 1 April 2014 and you move to a lower paid post there are options available regarding your pension benefits to protect your final year pensionable pay. Your final salary pensionable pay when you leave the Scheme is used in the calculation of your retirement benefits up to 31 March 2014. For part-time workers it is the pensionable pay they would have earned if they worked full-time. If you would like further information, please contact Islington Council's Pension's Office.

#### *8. What if I leave employment with Islington Council having reached the age of 55?*

If you have at least 2 years LGPS membership and are not going to another Local Government job, you have the choice of a deferred pension or immediate payment of a reduced pension.

If you are redundant at age 55 or over you will receive an immediate unreduced pension.

#### *9. What is flexible retirement?*

For a person who is aged 55 or over with at least 2 years LGPS membership, your Service Head could agree for a reduced pension to be paid whilst you remain employed by the Council on fewer working hours or on a lower grade. Working hours would have to go down by at least 30% (for example full time 35 hours a week would need to reduce to no more than 24.5 hours), or your pay must reduce by at least 2 grades.

#### *10. Can I take any of the pension money at age 55 if I remain in the job and have not been granted flexible retirement?*

No, the provision which you may have seen advertised in the media only applies to persons who have a private pension arrangement via an Insurance company etc. These private schemes are for persons who do not have a job related pension arrangement such as employees in Local Government, Civil Service, Police, and National Health Service.



*11. Can I stay in my job beyond State Pension Age?*

Yes, and you can remain a member up until 2 days before your 75th birthday. For a late retirement the pension is enhanced by a percentage which rises for each day you remain in the LGPS beyond normal retirement age.

*12. What happens to my pension if I die while I am still in the job?*

There will be a Lump Sum payable to your 'Estate' to the value of three times your annual pay. If you have been a member of the LGPS for at least 2 years, there is also a pension for life to your spouse (or partner if you have lived together for at least 2 years and are not married to anyone else). A pension may also be payable to any children still in full time education (but not once age 23 has been reached).

#### **4.6.3 Questions for persons who are no longer current members of the Local Government Pension but have deferred pension rights**

*1. If I keep my deferred pension with Islington Council, when will it be paid to me?*

At State Pension Age, but you will be able to take the pension at age 60 if you want or even from age 55 (if you left your Islington Council employment at any time from 1st April 2014). If you choose to receive the pension before reaching State Pension Age, it is likely to be lower.

*2. Does the deferred pension increase in value?*

Yes, for each year there is a rise in the Consumer Prices Index the deferred pension increases. When the pension comes into payment it will have risen by the cumulative increases from your last day of service up until the payment date.

*3. What happens to the pension if I die before it comes into payment?*

A one-off Lump Sum becomes payable. The current value of the 'Death Grant' lump sum is shown on the deferred pension benefits Statement which is sent to you each year. Also there may be a pension payable for life to your spouse (or partner), and to your children if they are still in full time education.

*4. If I get a new job in Local Government in the future what happens to the deferred pension?*

The value of the deferred pension will be transferred to the administering body for the new Local Government employer. Please note that you could opt to keep the deferred pension with Islington Council (for example if any of your Islington pension was based on final salary for membership before 1st April 2014 and the new Local Government job was lower paid).

*5. If I have reached age 55 can the value of my deferred pension benefits be transferred to an Insurance pension arrangement?*

Yes. You will be free to do so, and the Insurance provider would be able to pay out an annuity and a lump sum before age 60 if you wished. Independent financial advice should be sought before accepting a transfer to a private insurance arrangement.

*6. Can I still pay into my deferred pension?*

No, contributions to the scheme cease when you leave membership of the LGPS. Also a transfer from another pension arrangement cannot be made after you leave, unless the transfer was already in process before leaving.

#### 4.6.4 Questions for persons who are in receipt of a Local Government Pension from Islington Council

##### *1. Does my pension increase every year?*

Yes, for each year when there is a rise in the Consumer Prices Index your pension will increase.

##### *2. Why is Income Tax deducted from the pension I receive from Islington Council?*

Every person has a tax-free amount of income before tax is assessed, but if your Pension exceeds the tax free amount then the excess is taxed. In the tax year from April 2017 to April 2018 the tax free amount is £11,500.00, so you are taxed on income above £11,500.00.

##### *3. The Pension I receive from Islington Council is less than the tax-free amount, so why do I have Income Tax deducted from the pension?*

If you get the State Pension (the 'Old Age' Pension), then the annual amount is deducted from your tax-free amount so that the State Pension is taxed via your Islington Council Pension. For example, if your Islington Pension is £7,000.00 a year and your State Pension is £5,000.00, the total is £12,000.00. This exceeds the tax-free amount by £500.00 a year, so your tax code would be changed by HM Revenue & Customs in order to collect income tax on the £500 from the Islington Pension.

##### *4. What happens if I get a job after my Islington Pension has started?*

Your Pension would continue in payment, regardless of who is your employer (i.e. whether the job is in local government or outside). Tell the new employer that you have a Pension from Islington and so do not have a P45 tax document. It would be advisable for you to contact HM Revenue & Customs to ensure that the correct income tax is deducted from the Pension and the job.

##### *5. What happens when I die?*

Your Pension is payable for life. In the event of your death and you are survived by a spouse or partner they should inform the Council's Pension Team who will advise regarding spouse or partner's pension. The spouse or partner's pension would also be payable for life. If you still had children in full time education there would be pension provision for them as well (up until the age of 23 usually).

# 5: Democratic arrangements

## 5.1 Pension Sub-Committee

For 2016/17 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

Cllr Richard Greening (Chair)  
Cllr Andy Hull (Vice Chair)  
Cllr Paul Smith  
Cllr Michael O'Sullivan

### Substitutes

Cllr Mouna Hamitouche MBE  
Cllr Angela Picknell  
Cllr Robert Khan  
Cllr Jenny Kay

### Other Representatives:

Four trade union observers  
Pensioner representative Marion Oliver / Thelma Harvey  
Observer from Volunteering Matters (An 'admitted body')

### Fund Investment Advisors:

Mercer  
Allenbridge Investment Advisers

### Fund Actuary:

Mercer

### Fund Custodian:

BNY Mellon

### Performance Monitoring:

BNY Mellon to 31 March 2017

### Corporate Governance Research and Voting Advice Service:

Pension Investments Research Consultants

## 5.2. Islington Council Local Pension Board

In accordance with the Public Service Pensions Act 2013 the Islington Council Local Board (ICLPB) was established on 1 April 2015 for the purposes of assisting the Pension Sub-Committee:

- to secure compliance with the LGPS Regulations and other legislation relating to the governance and administration of the LGPS, and the requirements imposed by the Pension Regulator in relation to the LGPS; and
- to ensure the effective and efficient governance and administration of the LGPS

### 5.2.1 The membership of the board is as follows:

Councillor David Poyser	Employer representative- Chair
Maggie Elliot - Chair of Governors at Montem Primary School	Employer representative-Vice Chair
George Sharky, GMB	Member representative
Mike Calvert, Unison	Member representative
Marion Oliver(substitute is Thelma Harvey)	Retired members representative
-	Employer representative
David Bennett-	Independent member

5.2.2 The Board's terms of reference specify that the Board shall meet bi-annually and normally on the same date as the Pensions Sub-Committee, in order that its deliberations may be taken into account in relation to relevant items on the agenda of the Pensions Sub-Committee.

For the municipal year 2016/17, the Board met on 21 September 2016 and 13 March 2017. Members receive copies of agenda and reports of the pension sub-committee and vice versa.

### 5.3 Activities of the Board

(i) The Board agreed a work plan for 2016/17 to focus on

- Its own training, knowledge and understanding
- Reviewing fund risks and internal systems and controls
- Employer and member communications
- Reporting regulatory breaches
- Key performance indicators for administration of the Fund

(ii) They reviewed the pension abatement policy and recommended the current policy cease.

(iii) They reviewed and approved pension communication strategy policy and recommended extra full time post to assist the pension admin team to improve service performance targets.

(iv) As part of the actuarial valuation review process the Fund actuary provided a joint training session with the Pensions Sub- Committee

Copies of minutes and agenda items can be found on the council external website <http://democracy.islington.gov.uk>

## 6. Funding of the pension scheme

### 6.1 Accounts for the year ended 31 March 2017 - Statement by the Consulting Actuary

#### 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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases*	3.75% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

\* includes a corresponding allowance to that made in the latest formal 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 31 March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year- end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year- end has also changed to allow for short-term public sector pay restraint, together with a lower assumed level of "real" pay growth above CPI inflation, both of which serve to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £1,612 million. Interest over the year increased the liabilities by c£58 million. Net benefits accrued/paid over the period made no difference (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £431 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £2,101 million.

Ian Kirk  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
**August 2017**

## 7: Summary of financial report

### 7.1 Income and expenditure

The net assets of the scheme were worth £1,255 million. This is an increase of 16% compared to last year.

Employees' contributions totalled £11.6 million, increase of £0.4 million over 2015/16

Employers' contributions amounted to 35.9 million compared to the £34.9 million in the previous year. The 2.9% increase was mainly attributable to pension increase order and pay awards.

Pensions paid totalled £42.3 million compared to £40.5million in 2015/16, a rise of 4.4%.

As at 31 March 2017 the total income into the fund was £60.7million against an expenditure of £57.6 million. This means that the fund was able to meet all its commitments from contributions.

The detailed reporting of the pension fund accounts for 2016/17 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](http://www.islington.gov.uk/accounts).

## 8: 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 27-57 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 2017 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.

A handwritten signature in black ink, appearing to read 'Mike Curtis', with a horizontal line underneath.

Mike Curtis  
Corporate Director of Finance

# 9: Statement of accounts 2016/17

## 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 Local Government Pension Scheme Regulations 2013 (as amended ( "the 2013 Regulations")) and the Local Government Pension Scheme ( Transitional Provisions, Saving and Amendment) Regulations 2014 ("2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the administering Authority is required to 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 2016/17 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 Audit Committee and has fully delegated authority to make investment decisions. The Committee obtains and considers advice from the Corporate Director of Resources, 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 £28.2million) and Standard Life (total commitment £48.1 million). The fund also has one fund of funds private global property manager, Franklin Templeton Fund 1 and Fund II (total commitment £50 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:

<https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme>

Power is given in The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations” and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 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
Tech City(formerly Stem 6th)	Scheduled Body
Elliot Foundation Academy	Scheduled Body
Family School Academy	Scheduled Body
The Bridge Free School	Scheduled Body
Volunteering Matters (formerly CSV)	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
Engie Services Ltd(Cofely Workplace Ltd)	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
W J Catering	Admitted Body
Isledon Arts CIC	Admitted Body

There are also thirteen 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  
Aquaterra

## **9.1 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 2016/17 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 principal accounting policies of the scheme are as follows:

### **9.1.1. 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 2017.

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.

### **9.1.2. 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.

### **9.1.3. 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 as at 31 March 2017.

### **9.1.4. 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.

### **9.1.5. 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.

### **9.1.6. 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.

### **9.1.7. Expenses**

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

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance accounting for Local Government Pension Scheme Management Costs.

#### ***Administrative expenses***

All administrative expenses are accounted for on an accrual basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, central establishment,

computer recharges, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

### *Oversight and governance costs*

All oversight and governance expenses are accounted for on an accrual basis. All staff costs associated with governance and oversight is charged direct to the fund. Associated management advisory services, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

### *Investment management expenses*

All investment management expenses are accounted for on an accrual basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

All expenses are recognised on an accrual basis net of any recoverable VAT.

### **9.1.8. Stock Lending**

The fund does not participate in stock lending.

### **9.1.9. 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 2016/17 amounted to £106,460 and the value of the fund as at 31 March 2017 was £1.4m.

### **9.1.10. 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.

## 9.2 Income and Expenditure Account

2015/16 £'000	Pension Fund Account (dealing with members, employers and others directly involved in the scheme)	2016/17 £'000	Note
<b>Income</b>			
34,862	Employer contributions	35,920	2a
11,159	Members contributions	11,609	2
1,917	Transfers in from other pension funds	2,785	3
2,623	Other Income	2,297	4
<b>50,561</b>	<b>Total Income</b>	<b>52,611</b>	
<b>Expenditure</b>			
(52,014)	Benefits payable	(52,283)	5
(1,653)	Payment to and on account of leavers	(2,951)	6
<b>(53,667)</b>	<b>Total Expenditure</b>	<b>(55,234)</b>	
<b>(3,474)</b>	<b>Management Expenses</b>	<b>(2,370)</b>	7
<b>(6,580)</b>	<b>Net additions/ (withdrawals) from dealing with members</b>	<b>(4,993)</b>	
<b>Returns on investments</b>			
12,762	Investment income	8,106	8
(9,576)	Change in market value (realised & unrealised)	167,981	
<b>3,186</b>	<b>Total Returns on investments</b>	<b>176,087</b>	
<b>Net return on investments</b>			
(3,394)	Net increase/decrease in fund in year	171,094	
<b>1,087,177</b>	<b>Opening net assets of the scheme</b>	<b>1,083,783</b>	
<b>1,083,783</b>	<b>Closing net assets of the scheme</b>	<b>1,254,877</b>	

## 9.3 Net Assets Statement

2015/16 £'000	Net Assets Statement for the year ended 31 March 2015	2016/17 £'000	Note
<b>Investments</b>			
1,068,813	Investment assets	1,222,614	9
14,492	Other Investment and Cash	30,995	9
<b>1,083,305</b>	<b>Total Investments</b>	<b>1,253,609</b>	
<b>Current Assets and Liabilities</b>			
5,609	Current assets	10,942	10
(5,131)	Current liabilities	(9,674)	11
<b>478</b>	<b>Net Current Assets</b>	<b>1,268</b>	
<b>1,083,783</b>	<b>Net assets of the scheme at 31 March</b>	<b>1,254,877</b>	

The accounts 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 which 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.



## **9.4 Notes to the Pensions Account**

### **9.4.1. Basis of Preparation**

The statement of accounts summarises the fund's transactions for the 2016/17 financial year and its positions as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of future liabilities to pay pensions and other benefits which fall due after the end of financial year.

The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 14 of these accounts.

The 2016/17 Code introduces a number of minor changes to the format of the Fund Account and the Net Assets Statement, making it consistent with the new 2015 Pensions SORP. The information for 2015/16 in the Fund Account and Net Assets Statement has been restated to reflect the new reporting format, as required by the Code.

### **9.4.2. Contributions Receivable**

## a) Employers' Contributions

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*	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
<b>Administering Authority</b>						
Islington Council	30,769	30,038	-		2,267	3,324
<b>Scheduled Bodies</b>						
St Mary Magdalene	244	187	-	-	-	-
City of London Academy	110	112	-	-	-	-
New North Community School	90	77	-	-	-	-
William Tyndale School	67	86	-	-	-	-
The Courtyard School	20	20	-	-	-	-
Tech City (Stem 6th form Academy)	5	11	-	-	-	-
Elliot Foundation	13	41	-	-	-	-
The Bridge School Academy	23	11				
Family School Academy	1	9				
Whitehall Park School	4	-	-	-	-	-
<b>Admitted bodies</b>						
Volunteering Matters(CSV)	626	615	-		-	-
Circle Anglia	18	6	-		-	810
Camden & Islington NHS Foundation Trust	135	79	-	-	-	
Brunswick	-	1	-	-	-	-
NCP Services (Islington South)	22	21	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	20	11	-	-	-	-
Southern Housing Group	6	6	-	-	-	-
Braithwaite	4	5	-	-	-	-
Pleydell	16	17	-	-	-	-
Caterlink	144	158	-	-	-	-
Engie Services Ltd(Cofely Workplace Ltd)	97	135	-	-	-	-
R M Education	9	9	-	-	-	-
Breyer Group	18	6	-	-	-	-
Mears Ltd	35	31	-	-	-	-
WJ Catering	5	3				
Isledon Arts CIC	11	9				
Greenwich Leisure Ltd	83	82	-	-	-	-
<b>Totals</b>	<b>32,595</b>	<b>31,786</b>	<b>0</b>	<b>0</b>	<b>2,267</b>	<b>4,134</b>

\*Note 15 provides further information regarding "Strain Recovery"

## b) Members' Contributions

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)	
	2015/16	2016/17
	£'000	£'000
<b>Administering Authority</b>		
Islington Council	10,675	11,077
<b>Scheduled Bodies</b>		
St Mary Magdalene	130	100
City of London Academy	53	56
New North Community School	26	31
William Tyndale School	16	24
The Courtyard School	11	11
Tech City (Stem 6th form Academy)	5	14
Elliot Foundation	12	50
Bridge School Academy	8	10
Family School Academy	-	4
Whitehall Park School	2	-
<b>Admitted bodies</b>		
Volunteering Matters (CSV)	21	-
Brunswick	-	1
Circle Anglia	1	-
Camden & Islington NHS Foundation Trust	18	24
NCP Services (Islington South)	9	9
SSE Contracting Ltd (Islington Lighting)	5	2
Southern Housing Group	2	1
Braithwaite	2	2
Pleydell	6	7
Caterlink	54	79
Engie Ltd (Cofely Workplace Ltd )	36	47
R M Education	5	5
Breyer Group	8	4
Mears Ltd	12	11
WJ Catering	1	1
Isledon ArtsCIC	5	3
Greenwich Leisure Ltd	36	36
<b>Totals</b>	<b>11,159</b>	<b>11,609</b>

### 9.4. 3. Transfers in

2015/16 £'000	Transfers in	2016/17 £'000
-	Group transfers in from other schemes	-
1,917	Individual transfers in from other schemes	2,785
<b>1,917</b>	<b>Total transfers in</b>	<b>2,785</b>

#### 9.4.4. Other Income

2015/16 £'000	Other Income	2016/17 £'000
0	Income from Other Investments	0
0	Interest	0
2,623	Other	2,297
<b>2,623</b>	<b>Total other income</b>	<b>2,297</b>

#### 9.4.5. 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	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
<b>Administering Authority</b>						
Islington Council	37,537	39,246	9,728	8,534	1,317	1,041
<b>Scheduled Bodies</b>						
St Mary Magdalene	12	22	80	1	-	-
City of London Academy	28	28	49	-	24	-
William Tyndale School	5	19	-	-	-	-
New North Community School	9	9	-	-	-	-
<b>Admitted bodies</b>						
Volunteering Matters (CSV)	1,017	1,041	184	206	-	-
Aquaterra	223	220	27	-	-	-
Circle Anglia	58	65	-	64	-	-
Camden & Islington NHS Foundation Trust	51	51	-	-	-	-
CEA	807	804	4	-	-	-
FSST	5	4	-	-	-	-
Kier Islington Ltd (Caxton)	587	585	-	-	-	-
NCP Services (Islington South)	33	33	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	36	52	-	-	-	-
Redbrick	2	2	-	-	-	-
Mouchel Parkman	31	31	-	-	-	-
St Lukes	2	2	-	-	-	-
ALA	17	17	-	-	-	-
Brunswick	9	9	-	-	-	-
Cushman & Wakefield LLP	7	8	-	-	-	-
Caterlink	12	14	9	2	22	-
Notting Hill Trust	9	8	-	-	-	-
Kier Support Services	20	20	-	6	-	-
Engie Ltd (Balfour Beatty)	9	13	-	-	-	-
Breyers	-	1	-	-	-	-
Mears	-	8	-	100	-	-
Greenwich Leisure Ltd	16	17	27	-	-	-
<b>Totals</b>	<b>40,542</b>	<b>42,329</b>	<b>10,108</b>	<b>8,913</b>	<b>1,363</b>	<b>1,041</b>

#### 9.4.6. Payments to and on Account of Leavers

2015/16 £'000	Payment to and on Account of Leavers	2016/17 £'000
95	Refunds of Contributions	101
1,558	Individual Transfer	2,850
<b>1,653</b>	<b>Total payments to and on account of leavers</b>	<b>2,951</b>

#### 9.4.7. Management Expenses

2015/16 £'000	Management Expenses	2016/17 £'000
1,219	Administrative Cost (7a)	1,230
1898	Investment Management Expenses (7b)	824
357	Oversight and Governance Cost (7c)	316
<b>3,474</b>	<b>Total Management Expenses</b>	<b>2,370</b>

##### 9.4.7(a) Administrative Expenses

2015/16 £'000	Administrative expenses	2016/17 £'000
895	Employee Cost	890
320	Support services	340
4	Other expenses	-
<b>1,219</b>	<b>Total administrative expenses</b>	<b>1,230</b>

All other costs of administration are borne by Islington Council.

##### 9.4.7(b) Investment Expenses

2015/16 £'000	Investment Expenses	2016/17 £'000
1,852	Management Fees	761
46	Custody Fees	63
<b>1,898</b>	<b>Total investment management expenses</b>	<b>824</b>

##### 9.4.7(c) Oversight and Governance Cost

2015/16 £'000	Oversight & Governance Cost	2016/17 £'000
32	Performance Management Services	5
77	Advisory Services Fees	155
224	Operation and Support	54
3	Actuarial Fees	81
21	Audit Fees	21
-	Legal Fees	-
<b>357</b>	<b>Total Oversight &amp; Governance Cost</b>	<b>316</b>

#### 9.4.8. Income from Investments

2015/16 £'000	Investment Income	2016/17 £'000
15,480	Dividends from equities	16,797
(5,062)	Income from other investments vehicles	(11,135)
2,357	Net rents from pooled investment properties	2,494
(13)	Interest on cash deposits	-50
<b>12,762</b>	<b>Total Investment income</b>	<b>8,106</b>
-	Irrecoverable withholding tax	-
<b>12,762</b>	<b>Total Investment income</b>	<b>8,106</b>

#### 9.4.9. Investments

Investments	Market value 01 Apr 16 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 Mar 17 £'000
Fixed interest securities	82	-	-	2	84
Indexed linked securities	120	-	-	11	131
Equities	385,939	53,297	60,615	73,937	452,558
Pooled investment vehicles (P.I.V)	469,810	86,549	89,922	87,556	553,993
Other Investment - P.I.V	-	-	-	-	-
Properties - P.I.V	175,551	2,548	-	5,445	183,544
Private Equity - P.I.V	37,311	1,163	7,201	1,031	32,304
Venture Capital	-	-	-	-	-
<b>Total</b>	<b>1,068,813</b>	<b>143,557</b>	<b>157,738</b>	<b>167,982</b>	<b>1,222,614</b>
Other Investment & Cash	14,492				30,995
<b>Total Investments</b>	<b>1,083,305</b>				<b>1,253,609</b>

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		2015/16 £'000	2016/17 £'000
<b>Fixed interest securities (valued at Bid Price)</b>			
Fixed interest securities (valued at Bid Price)		82	84
<b>Total Fixed interest securities</b>		<b>82</b>	<b>84</b>
<b>Index -linked</b>			
UK public sector quoted		120	131
<b>Total Index -linked</b>		<b>120</b>	<b>131</b>
<b>Equities (valued at Bid Price)</b>			
UK quoted		216,072	241,930
Overseas quoted		169,867	210,628
<b>Total Equities</b>		<b>385,939</b>	<b>452,558</b>
<b>Pooled investment vehicles (valued at Bid Price)</b>			
UK Managed Funds	Property	100,053	103,359
	Other : Bond	220,821	244,326
Overseas Managed Funds	Other : Equity	69,784	97,569
	Property	19,747	20,667
	Other : Private Equity	37,311	32,304
UK Unit trusts (valued at Bid Price)	Property	55,751	59,518
	Other	179,205	212,098
<b>Total Pooled investment vehicles</b>		<b>682,672</b>	<b>769,841</b>
<b>Insurance policies</b>			
Insurance policies		-	-
<b>Other investment balances (valued at Amortised cost)</b>			
Outstanding trades		(2,251)	(2,053)
Outstanding dividends & RWT		2,638	2,659
Cash deposits : Sterling		14,105	30,389
<b>Total Other investment balances</b>		<b>14,492</b>	<b>30,995</b>
<b>Total Investment Assets</b>		<b>1,083,305</b>	<b>1,253,609</b>

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	-	-
<b>Total</b>		<b>0</b>	<b>0</b>

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



#### 9.4.10. Current Assets

2015/16 £'000	Current Assets	2016/17 £'000
1,911	Contributions due from Employers & Employee	3,643
101	Sundry Debtors	(20)
3597	Cash Balances	7,320
<b>5,609</b>	<b>Total</b>	<b>10,943</b>

#### 9.4.11. Current Liabilities

2015/16 £'000	Current Liabilities	2016/17 £'000
(2,206)	Accrued Benefits	(3,718)
(1,956)	**Sundry Creditors	(4,359)
(615)	*Receipt in Advance	(208)
(354)	Accrued Expenses	(1,390)
<b>(5,131)</b>	<b>Total</b>	<b>(9,675)</b>

\* CSV Advance lump sum payment for 2015-17

\*\* Central Recharges & One off IT Cost

#### 9.4.12. Expenditure

a) Benefits provided by the scheme include:

- Retirement pensions at normal retirement age.

Other Types of Retirement Pension:

- Redundancy and or Efficiency subject to minimum age condition of 55
- Flexible Retirement subject to minimum age condition of 55
- Ill- Health Retirement subject to approval by Council's medical adviser

b) Lump sum payments on retirement or death in service.

	Service Pre 1 April 2008	Services Post 31 March 2008	Service Post 31 March 2014
<b>Pension</b>	Each year worked is worth 1/80 x pensionable salary	Each year worked is worth 1/60 x pensionable salary	Each year worked is worth 1/49 x pensionable salary
<b>Lump sum</b>	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

c) A contributor who voluntarily leaves with less than two year's membership in the Scheme will receive a refund of their pension contributions unless they choose to transfer their pension out to another pension scheme.

However, if the contributor was in the scheme before 1 April 2014, and leave after then and has have been in the scheme for three or more months but less than two years, they will have the choice of taking a refund of contributions, having a deferred pension or transferring their pension out to another pension scheme

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.

#### 9.4.13. Income

Income is credited to the Pension Fund consisting mainly of:

a) Employees' contributions ranging between 5.5% and 12.5% 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 2013, effective from 1 April 2014 fixed at 12.5% 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-two years. A lump sum contribution of £10.401m was made in 2016/17.

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

#### **9.4.14. 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.

The Pension Fund Triennial revaluation carried out as at 31 March 2013 came into effect in terms of altered employer contributions from 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 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 of 2.6% 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.

### *Pension Fund Triennial Revaluation*

The latest actuarial valuation was carried out as at 31 March 2017.

The figure is prepared for the purposes of IAS 26 and has no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis.

IAS26 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, the following financial assumptions as at 31 March 2017 have been used:

- Rate of return on investments 2.5% per annum
- Rate of general pay increases\* 3.8% per annum
- Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions) 2.3% per annum

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

The demographic assumptions are the same as those used for funding purposes.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay

restraint, together with a lower assumed level of “real” pay growth above CPI inflation, both of which serve to reduce the liabilities.

The value of the Fund’s promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £1,612 million. Interest over the year increased the liabilities by c.£58 million. Net benefits accrued/paid over the period made no difference (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £431 million made up of “actuarial losses” (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2017 is £2,101 million.

#### 9.4.15. Fund Membership

Membership of the Fund	Administering Body		Admitted Bodies		Scheduled Bodies		Totals	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	No's	No's	No's	No's	No's	No's	No's	No's
Employees Contributing into the Fund	5,454	5,562	146	137	327	327	5,927	6,026
Pensioners	4,906	5,057	377	391	14	15	5,297	5,463
Widows/ Children's Pensions	929	934	46	47	5	4	980	985
Deferred Benefits	7,272	7,529	775	773	136	163	8,183	8,465
<b>Totals</b>	<b>18,561</b>	<b>19,082</b>	<b>1,344</b>	<b>1,348</b>	<b>482</b>	<b>509</b>	<b>20,387</b>	<b>20,939</b>

#### 9.4.16. Additional Voluntary Contributions

2015/16	Additional Voluntary Contribution		2016/17
Market Value			Market Value
£'000			£'000
1,014	Prudential		1,098
206	Equitable life		224
84	NPI		90
<b>1,304</b>	<b>Total Additional Voluntary Contributions</b>		<b>1,412</b>

#### 9.4.17. Contingent Assets and Liabilities

There were no contingent assets or liabilities in 2016/17.

#### 9.4.18. Contractual Commitments

There were no contractual commitments at the period end.

#### **9.4.19. 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 deferred members of the LGPS.

As at 31 March 2017, Islington Council owed the Pension Fund £2.9m (at 31 March 2016, Islington Council owed the Pension Fund £1.6m). Full contributions from the council for the year are disclosed in table 2a.

#### **9.4.20. Post Balance Sheet Events**

None.

#### **9.4.21. 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.

#### **9.4.22. 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.

*Price risk*

Price Risk	Final Market Value as at 31/03/17 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	241,930	10.60%	267,575	216,286
Overseas Equities	406,112	10.86%	450,216	362,008
Total Bonds	244,541	6.04%	259,311	229,771
Pooled Multi Asset	107,232	4.37%	111,918	102,546
Cash	30,995	0.01%	30,998	30,992
Property	183,544	2.12%	187,435	179,653
Private Equity	39,255	5.39%	41,371	37,139
<b>Total Assets</b>	<b>1,253,609</b>	<b>6.51%</b>	<b>1,335,219</b>	<b>1,171,999</b>

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

### 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 below 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 31/03/17 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities-Euro	76,500	3.62%	79,269	73,731
Overseas Equities- Yen	11,956	3.62%	12,389	11,523
Overseas Equities-US Dollar	100,429	3.62%	104,064	96,793
Overseas Equities -global basket	103,670	3.62%	107,423	99,917
Overseas Equities - Emerging Market	113,557	3.62%	117,668	109,446
<b>Total Assets</b>	<b>406,112</b>	<b>3.62%</b>	<b>420,813</b>	<b>391,410</b>

## 9.4.23. 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 2017	Quoted Market Price  Level 1 £'000	Using Observable Inputs  Level 2 £'000	With Significant Unobservable inputs  Level 3 £'000	Total   £'000
<b>Financial Asests</b>				
Financial assets at fair value through profit and loss	1,190,310	63,299	-	1,253,609
Loans and Receivables	-	10,942	-	10,942
<b>Total Financial Assets</b>	<b>1,190,310</b>	<b>74,241</b>	<b>0</b>	<b>1,264,551</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(9,674)	-	(9,674)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>(9,674)</b>	<b>0</b>	<b>(9,674)</b>
<b>Net Financial Assets</b>	<b>1,190,310</b>	<b>64,567</b>	<b>0</b>	<b>1,254,877</b>

Values at 31 March 2016	Quoted Market Price  Level 1 £'000	Using Observable Inputs  Level 2 £'000	With Significant Unobservable inputs  Level 3 £'000	Total   £'000
<b>Financial Asests</b>				
Financial assets at fair value through profit and loss	1,031,502	51,803	-	1,083,305
Loans and Receivables	-	5,609	-	5,609
<b>Total Financial Assets</b>	<b>1,031,502</b>	<b>57,412</b>	<b>0</b>	<b>1,088,914</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(5,131)	-	(5,131)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>(5,131)</b>	<b>0</b>	<b>(5,131)</b>
<b>Net Financial Assets</b>	<b>1,031,502</b>	<b>52,281</b>	<b>0</b>	<b>1,083,783</b>

### *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. These instruments include our private equity managers and cash held in the fund.

### *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.

#### **9.4.24. Investment Assets by Fund Manager**

Investment Assets by Fund Manager		2015/16 £'000	2016/17 £'000
<b>LBI In House Fund</b>			
<b>EQUITIES</b>			
UK quoted - LBI self managed		198,162	220,905
Overseas quoted - LBI self managed		41,447	52,629
<b>CASH DEPOSITS</b>			
Sterling		9,102	2,787
Other		0	10,410
<b>OTHER INVESTMENT BALANCES</b>			
Outstanding Dividends/Tax		1,626	1,698
Outstanding trades		0	0
<b>FIXED INTEREST</b>			
UK		82	84
INDEX-LINKED			
UK		120	131
<b>POOLED FUNDS</b>			
UK		6,932	6,936
<b>Total LBI In House Fund</b>		<b>257,471</b>	<b>295,580</b>
<b>Newton</b>			
<b>EQUITIES</b>			
Overseas quoted - NEWTON		128,420	157,999
UK quoted - NEWTON		17,910	21,025
<b>CASH DEPOSITS</b>			
Sterling		7,812	10,029
Other		0	181
<b>OTHER INVESTMENT BALANCES</b>			
Outstanding Dividends		767	769
Outstanding trades		-2,251	-1,156
<b>Total Newton</b>		<b>152,658</b>	<b>188,847</b>
<b>RCM / LONDON CIV</b>			
<b>EQUITIES</b>			
Overseas quoted - RCM		0	0
UK quoted - RCM		0	0
<b>POOLED FUNDS</b>			
Other		75,279	97,915
<b>CASH DEPOSITS</b>			
Sterling		116	192
Other		0	0
<b>OTHER INVESTMENT BALANCES</b>			
Outstanding Dividends		245	191
Outstanding trades		0	0
<b>Total RCM</b>		<b>75,640</b>	<b>98,298</b>

Investment Assets by Fund Manager (contd.)		2015/16 £'000	2016/17 £'000
<b>Standard Life Bonds</b>			
<b>POOLED INVESTMENT VEHICLES</b>			
Managed funds		220,821	244,326
<b>Pantheon</b>			
<b>POOLED INVESTMENT VEHICLES</b>			
Private equity - overseas		16,405	11,640
<b>Standard Life</b>			
<b>POOLED INVESTMENT VEHICLES</b>			
Private equity - overseas		20,906	20,664
<b>Aviva Lime Property</b>			
<b>UK UNIT TRUSTS</b>			
Property		55,751	59,518
<b>Threadneedle Pensions</b>			
POOLED INVESTMENT: Property		74,205	76,857
<b>Baring English Growth Fund</b>			
UK UNIT TRUSTS		11	15
<b>Thesis</b>			
POOLED INVESTMENT: Property		25,847	26,502
<b>BNY Mellon</b>			
CASH DEPOSITS : Sterling		-2,924	6,790
outstanding fx trades			-896
			5,894
<b>Legal &amp; General</b>			
<b>POOLED INVESTMENT VEHICLES</b>			
Managed funds		69,784	97,569
<b>Franklin Templeton</b>			
Pooled Investment Global Property		19,747	20,667
<b>Schroders</b>			
Pooled Investment Multi Asset		96,983	107,232
<b>Total Investment Assets</b>		<b>1,083,305</b>	<b>1,253,609</b>

# 10: Auditors opinion

Independent auditor's report to the members of 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 2017 on pages 111 to 135.

## **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 2016/17.

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 London Borough of Islington, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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.

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 London Borough of Islington for the year ended 31 March 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

## **Matters on which we are required to report by exception**

The Code of Audit Practice 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 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Neil Hewitson

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square, London E14 5GL

29 September 2016

# 11: 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.

## 12: The fund's statutory statements

### INVESTMENT STRATEGY STATEMENT

#### 12.1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement

of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This investment strategy statement (ISS) has been designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Pensions Sub-Committee ('the Committee') at least triennially or more frequently should any significant change occur.

## **Myners Principles**

Although not specifically referenced in the Regulations, the Pensions Sub-Committee feels that assessment of compliance with the Myners Principles is a valuable governance tool. A copy of the Fund's Myners Compliance Statement can be found in the Annual Report and Accounts and is attached as Appendix A

## **12.2. Investment Beliefs and Objectives**

The Committee has adopted policies with the primary objective being to pay members benefits as they fall due and the secondary objective to achieve maximum growth of pension fund investments to reduce the burden of employer contributions. The target for real investment returns above CPI is set out in the Fund's Funding Strategy Statement. The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task.
- Risk mitigation will be prioritised according to size of potential impact and risks will only be taken where they are expected to be rewarded.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term. Value for money from investments is important, not just absolute costs.

## **12.3. Investment strategy and the process for ensuring suitability of investments.**

As noted above, the Fund's objective is to pay benefits as they fall due and this requires the build-up of sufficient reserves in advance. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving



returns in excess of CPI inflation, without taking undue risk. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The asset strategy, along with an overview of the role each asset plays in achieving the Fund's objectives is set out in the table below:

Asset class	Allocation %	Allowable ranges %	Role (s) within the strategy
Equity	46.0	+/-6.0	Long term growth in excess of inflation expected
Private Equity	4.0	+/-2.0	Additional returns in excess of public equity
Diversified Growth Funds	10.0		Diversification. Some inflation protection; Source of income
Property	15.0	+/-2.0	Diversification. Generates investment income; Returns expected to be inflation-sensitive Exposure to Illiquidity premium
Corporate Bonds	10.0	+/-2.5	Diversified source of return from a range of sources. Not specifically income generating
Diversifying 'real' assets e.g. Infrastructure Social Housing	15.0		Diversification. Generates investment income; Returns expected to be inflation-sensitive Exposure to Illiquidity premium

The Pensions Sub-Committee is responsible for the Fund's asset allocation which is determined via a triennial strategy review as part of the valuation process, but is kept under constant review; noting that strategic changes are an evolutionary process.

The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit
- An analysis of the order of magnitude of the various risks facing the is established in order that a priority order for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security.

#### **12.4. Risk measurement and management**

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly.

[Risk Attribution Analysis (to be added in following strategy review) to show size / impact of main investment risks]

[Impact of falls in equity markets, rises in inflation, falls in interest rates and investment manager underperformance on the funding level (to be added in following strategy review).]

## **A Investment Risks**

**Equities** – The largest risk that the Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in other diversifying assets. The fund also uses a passive hedge overlay to mitigate currency risk in its global equities.

**Inflation** –The Fund's liabilities are impacted by inflation both explicitly and implicitly and the required return on assets is expressed in terms of inflation plus a premium. The Fund will seek to invest in a range of assets that provide returns in excess of inflation and in some cases provide an inflation-linked income, subject to a tolerable level of volatility.

**Diversifying assets** – The Fund has a significant amount of assets allocated to a range of non-equity diversifying assets, with allocations to property, bonds, diversified growth and a plan to build allocations to real assets such as infrastructure and social housing. The risks that these investments bring at an individual level are not insignificant but the Committee believes that over the long term these assets will provide returns that compensate for the risks being run. Additionally, the level of diversification the assets provide helps to reduce the Fund's reliance on returns from equities. Illiquid assets such as property are also a valuable source of income.

**Active Manager Risk** – Investment Managers are appointed to manage the Fund's investments on its behalf, a number of which are active managers. Active manager risk is small relative to other risks; the Fund still addresses this risk. Extensive due diligence is undertaken before managers are selected, with a number of different managers employed to prevent manager concentration risk. The investment managers are also monitored regularly by the Committee and by the Fund's Advisors.

The Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund by investing in a range of different investments can reduce the overall level of risk run to a degree.

## **B Demographic Risks**

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over

time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

## **C Cashflow Management Risks**

The Fund is cash flow positive. However, this position will be reviewed regularly and is a factor that is incorporated into the Fund's investment strategy reviews with the long-term aim that a portfolio of income generating assets is built up over time.

## **D Governance Risks**

The Committee believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

Details of the Fund's governance structure can be found in the Governance Compliance Statement in the Annual Report found via <https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme> useful documents. The Pensions Sub-Committee members receive training on a regular basis as a group and attend individual training courses and seminars. Each member must attend the 3 Day Trustee Training organised by the Local Government Association.

## **E ESG Risks**

The Committee believes that ESG risks should be taken into account on an ongoing basis. ESG considerations are an integral part of the Fund's strategy and objective of being a long term investor. The Committee expects its investment managers to include information on how carbon risk is being managed within their respective portfolios as part of regular reporting for the Fund.

The Committee accepts that engagement is key in relation to strong corporate governance, which in turn will enhance returns. Details of the Fund's policies can be found later in this statement.

The Fund has made a commitment to reduce its exposure to carbon intensive companies and assets. After careful consideration, the Committee decided to change both the UK equity index benchmark for the Fund's internally managed passive equities and the global equity index benchmark for externally-managed passive assets, to low carbon variants of the standard index. As a result of these changes, the Fund will have a very much lower carbon footprint than a 'normal' equity portfolio, and therefore a low carbon footprint at the Total Fund level. The Pensions Sub-Committee expects to continue to review further opportunities, particularly in other asset classes, to reduce the Fund's carbon footprint further.

## **12.6. Approach to asset pooling**

The Fund has formally joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

The Fund has already transitioned liquid assets into the London CIV with a value of £92m and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund in advance of April 2018.

The Fund holds £90m of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

A proportion (currently 20%) of the Fund is held in illiquid assets and these may remain outside of the London CIV pool where there is a strong business case. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision not to reinvest.

## **12.7. Social, environmental and corporate governance policy and policy of the exercise of rights (including voting rights) attaching to investments**

With regard to socially responsible investment the Committee is mindful of the following legal principles, which are based on recent decisions in the courts and which apply to all pension schemes:

- a. Administering authorities are free to adopt a policy of socially responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.
- b. Administering authorities are free to avoid certain kinds of investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.
- c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the Fund consistent with proper diversification and prudence is paramount.

The London Borough of Islington Pension Fund wishes to promote a policy of dialogue on socially responsible investment issues, through the Fund Managers, with company management. In the first instance, the Committee would like environmental issues, human rights, employment standards and modern day slavery to be raised with company management. Environmental issues could include issues such as reducing carbon

emissions, conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources. Human rights could involve child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes. Employment standards could relate to equal opportunities, health and safety, trade union recognition and employee participation.

The Fund invests via pooled funds and is therefore prepared to subscribe to the policies of the individual fund managers. When monitoring investment managers, the Pensions Sub-Committee considers whether managers' actions and engagement activities have been appropriate and in keeping with London Borough of Islington Pension Fund policy.

It is proposed to monitor action by fund managers on a quarterly basis and further develop this policy on an annual basis on the basis of experience.

The Fund has joined the Local Authority Pension Fund Forum to promote best practice on corporate governance and SRI issues amongst the companies in which it invests, through cooperative action with other local authority funds. The Forum exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst companies in which they invest.

With more than half of all local authority funds as members, the Forum can negotiate with companies with a single authoritative voice, impossible for smaller funds acting alone. The Forum is developing policy and carrying out research and engagement with companies on many issues, including environmental issues such as the climate change impact of the transport sector, and the impact of oil extraction from tar sands. Other initiatives include engagement with fund managers to try to improve transparency of proxy voting policies by the managers, and on corporate governance issues.

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.

There are no proposals to invest any part of the Fund exclusively in Socially Responsible Investments at the current time. Nor is it proposed that positive or negative screening should be adopted by the Fund on socially responsible issues.

As noted earlier, the Fund has made a commitment to reduce its exposure to carbon intensive companies and assets.

## **12.8. Policy of the exercise of rights (including voting rights) attaching to investments**

The Pensions Sub-Committee takes its responsibilities as a company shareholder seriously and exercises its votes at company AGMs/EGMs wherever practically possible. The Sub-Committee uses the Corporate Governance Service provided by Pension Investments Research Consultants (PIRC), and casts votes at all UK, European and North American company AGMs in line with PIRC recommendations unless the Council decides otherwise.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

In addition, voting records are published in the year end annual reports and quarterly reports of voting actions are posted on the Fund's website <https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme> useful documents. The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code Or The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements.

### **Advice Taken**

In creating this statement, the Pensions Sub-Committee has taken advice from its Investment Consultant and independent Investment Advisor. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, also Mercer. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

## **APPENDIX A**

### **12.9 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.

#### **Principle 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.

#### **Comment**

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 Local Government Association 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.

## **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.

### ***Comment***

The Council seeks to undertake regular reviews of investment strategy, most recently in 2014, which took into account the scheme's liabilities, the strength of the employer covenant and the attitude to risk of both the trustees and the sponsor.

## **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.

### ***Comment***

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.

## **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.

### ***Comment***

Overall Fund performance and detailed portfolio performance is measured quarterly, annually and over longer periods by external independent measurement specialists BNY Mellon. Performance is also monitored against the local authority peer group of pension funds, also based on old State Street Company data but from 1 April 2016 run by PIRC (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 and by internal audit through regular audits programmed into the Audit Plan.

Pension benefits administration performance is reported regularly to Pensions Board



## **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 Investment Strategy Statement Trustees should report periodically to members on the discharge of such responsibilities.

### ***Comment***

The Sub-Committee uses the Corporate Governance Service provided by Pension Investments Research Consultants (PIRC), and casts votes at all UK, European and North American company AGMs in line with PIRC recommendations unless the Council decides otherwise.

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 Trustees accept that the assets are subject to the investment manager's own policy on socially responsible investment. The Trustees are 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 its Investment Strategy Statement.

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.

## **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.

### ***Comment***

The Council's SIP (and its replacement the Investment Strategy Statement from 1 April 2017) 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 available to all pensioners and employees each year. 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.

## 12.2 The Funding Strategy Statement

This Funding Strategy Statement has been prepared by London Borough of Islington (the Administering Authority) to set out the funding strategy for the Islington Council Pension Fund (the “Fund”), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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## 12.2.1 EXECUTIVE SUMMARY

Ensuring that the Islington Council Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (London Borough of Islington). The Funding Strategy adopted by the Islington Council Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

**The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Islington Council Pension Fund.**

**It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.**

Given this, and in accordance with governing legislation, all interested parties connected with the Islington Council Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

### THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected.



### SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund

and “long term cost efficiency” of the Local Government Pension Scheme (the “LGPS”) so far as relating to the Fund.



## DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 78% at the valuation date (i.e. the assets of the Fund are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund’s objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations (and any change emerging to the Primary Rate) a key principle will be to maintain the deficit contributions at least at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The maximum recovery period for the Fund as a whole is 22 years which is the same period as that adopted at the previous valuation. However, subject to affordability and other considerations, individual employer recovery periods would be expected to reflect a continuation of the period set at the previous valuation.

Where there is an increase in contributions required at this valuation, at the sole discretion of the Administering Authority, the employer will be able to step-up their contributions over a period of up to 3 years.



## ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. included in the “Secondary” rate) are set out in

Appendix B to this FSS.

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities and solvency level is 2.2% per annum and for determining the future service (“Primary”) contribution rates is 2.75% per annum.

Where warranted by an employer’s circumstances, the Administering Authority retains the discretion to apply a different discount rate. Such cases will be determined by the Section 151 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

## **EMPLOYER ASSET SHARES**

The Fund is a multi-employer pension fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund. In addition, the asset share maybe restated for changes in data or other policies.

## **FUND POLICIES**

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

### **1. Covenant assessment and monitoring**

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund may continue to monitor employer's covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

### **2. Admitting employers to the Fund**

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Fund Employers
- Designated bodies - those that are permitted to join if they pass a resolution

- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

### **3. Termination policy for employers exiting the Fund**

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

## 12.2.3 INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Islington Council Pension Fund (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 Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

### BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. 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 Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

### EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

### PRIMARY RATE

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.



The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

## SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

## 12.2.4 PURPOSE OF 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 Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund 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.

## 12.2.5 AIMS AND PURPOSE OF THE FUND

### THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

### 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 Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## 12.2.6 RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee, the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

### KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due

- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

## 12.2.7 SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

## SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the LGPS so far as relating to the Fund.

## DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**. Underlying these assumptions are the following two tenets:

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

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- Where deficits remain, the Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable on deficit contributions) unless there is a specific reason to do so.
- Subject to consideration of affordability, as a general rule the deficit recovery period will be a continuation of the recovery period adopted at the preceding valuation. This is to target full solvency over a similar time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). [These principles have resulted in a target recovery period of 19 years being adopted for most Fund employers.](#)
- Individual employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
  - the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendment over 2017/20 in respect of an employer's surplus or deficit (including phasing adjustments)

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.

- Where increases (or decreases) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.
- For those employers assessed to be in surplus at the valuation date and who are expected to exit the Fund in the period to 31 March 2020, the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the Secondary rate will be zero, unless otherwise agreed by the Administering Authority.
- For certain employers, subject to the agreement of the administering authority, the option to prepay Primary rate contributions may be made available. This option would be on the proviso that a "top-up" payment would be made by the employer prior to the end of the prepayment period in order to ensure that no underpayment emerges versus the minimum required by the valuation certificate.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund 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 Fund to another participating employer. The termination policy is set out in Appendix C.

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

#### FUNDING FOR EARLY RETIREMENT COSTS

With regard to costs for ill-health or voluntary early retirement, for certain employers in the Fund, allowance will be included within the certified future service contribution rate. Additionally, any ‘strain’ costs generated on redundancy, efficiently, or flexible retirements will be recovered by additional capital payments to the Fund. These will be paid in full at the point of retirement.

For those employers for whom the certified future service contribution rate excludes an allowance for ill-health or voluntary early retirement costs, the administering authority will require the costs of all early retirements to be paid in full by the employer by additional capital payments at the point of retirement.

### 12.2.8 LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 78% covered by the current assets, with the funding deficit of 22% being covered by future deficit contributions.

In assessing the value of the Fund’s liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

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 which represents the “minimum risk” investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund’s assets in line with this portfolio would minimise fluctuations in the Fund’s funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the

Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 51%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:

	<b>Benchmark %</b>
UK Equities	20
Global Equities (Developed Market)	20
Global Equities (Emerging Market)	6
<b>Total Equities</b>	<b>46</b>
Corporate Bonds	10
<b>Total Bonds</b>	<b>10</b>
Property	20
Private Equity	4
Infrastructure	10
Diversified Growth Fund	10
<b>Total Alternatives</b>	<b>44</b>
Cash	0
<b>Total</b>	<b>100%</b>

The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 3.5% per annum in excess of CPI inflation as at 31 March 2016. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in Appendix A).

During the recovery period, an overall investment return assumption of up to 3% per annum in excess of CPI will be allowed for in the calculation of the required deficit recovery contributions for certain employers. The Administering Authority believes that this is a reasonable "best estimate" allowance for investment returns during the recovery period based on the investment strategy as set out above and following analysis undertaken by the Actuary and the Fund's investment advisors.

## 12.2.9 IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund 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 Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

## FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves 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
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

## DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the Fund's cashflow requirements and considers the impact on the investment strategy.

## INSURANCE OF CERTAIN BENEFITS



The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

## REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

## GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

## 12.2.10 MONITORING AND REVIEW

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

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 the 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
- have been significant changes to the Fund membership, or LGPS benefits

- 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
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

## APPENDIX A — ACTUARIAL METHOD AND ASSUMPTIONS

### METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

### FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

#### Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.2% per annum above CPI inflation, i.e. a total discount rate of 4.4% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

#### Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

#### Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional

increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public sector employers this results in a total salary increase of 1.0% per annum to 2019/20 in line with Government policy.

### **Pension increases/Indexation of CARE benefits**

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation).

## **DEMOGRAPHIC ASSUMPTIONS**

### **Mortality/Life Expectancy**

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current 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 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

### **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 £1 p.a. of pension given up.

### **Other Demographics**

Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership, rates of ill-health retirement and withdrawal from active service assumptions have been modified from the last valuation. No allowance will continue to be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

### **Expenses**

Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

### **Discretionary Benefits**

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

## **METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)**

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

#### **METHOD AND ASSUMPTIONS USED IN CALCULATING RECOVERY PLAN CONTRIBUTIONS (OR SECONDARY RATE)**

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target with the exception that, under specific circumstances, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant, an allowance may be made within the recovery plan for investment performance at a higher level than that assumed for assessing the funding target. This means that the required contributions may be adjusted to allow for the following variation in assumptions during the period of the recovery plan:

##### **Investment return on existing assets and future contributions**

A maximum overall return effective as at the valuation date of 3% p.a. above CPI reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the recovery plan.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the total employer contributions emerging from the valuation will be no less than the current level of contributions payable by the employer or the Future Service Contribution Rate, whichever is higher.

#### **EMPLOYER ASSET SHARES**

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share. In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund. In addition, the asset share maybe restated for changes in data or other policies.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR  
CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL  
(THE “PRIMARY RATE”) FOR THE 2016 ACTUARIAL VALUATION

<b>Long-term yields</b>	
Market implied RPI inflation	3.2% p.a.
<b>Solvency Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.4% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases*	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
<b>Future service accrual financial assumptions</b>	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

\*alongside an allowance for short term pay restraint of 1% p.a. for 4 years where applicable

**Life expectancy assumptions**

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

Current Status	Retirement Type	2016 study
Annuitant	Normal Health	96% S2PMA_CMI_2015[1.5%] / 84% S2PFA_CMI_2015[1.5%]
	Dependant	107% S2PMA_CMI_2015[1.5%] / 97% S2DFA_CMI_2015[1.5%]
	Ill Health	96% S2PMA_CMI_2015[1.5%] + 3 yrs / 84% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	96% S2PMA_CMI_2015[1.5%] / 84% S2PFA_CMI_2015[1.5%]
	Ill Health	96% S2PMA_CMI_2015[1.5%] + 4 yrs / 84% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	96% S2PMA_CMI_2015[1.5%] / 84% S2PFA_CMI_2015[1.5%]

-Life expectancies at age 65

	Male Life Expectancy at 65	Female Life Expectancy at 65
Membership Category	Proposed Assumption	Proposed Assumption
Pensioners	22.8	26.0
Actives aged 45 now	25.0	28.3
Deferreds aged 45 now	25.0	28.3

Other demographic assumptions are set out in the Actuary's formal report.

## APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts increasing at 3.7% per annum (in line with long-term pay growth assumption) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Default Deficit Recovery Period	Derivation
Scheme Employers	19 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan. For certain employers, subject to the agreement of the administering authority, depending on affordability and other considerations, a maximum recovery period of up to 22 years may be applied.
Open Admitted Bodies	19 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Closed Employers	Lower of 19 years and the future working lifetime of the membership	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from



		the existing recovery plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain broadly the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period), taking into account any changes in the future service contribution requirements.

For those employers assessed to be in surplus at the valuation date and who are expected to exit the Fund in the period to 31 March 2020, the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the Secondary rate will be zero, unless otherwise agreed by the Administering Authority.

### **Other factors affecting the Employer Deficit Recovery Plans**

As part of the process of agreeing funding plans with individual employers and managing risk in the inter valuation period, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

## APPENDIX C – ADMISSION AND TERMINATION POLICY

This document details the Islington Council Pension Fund's (ICPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers ICPF's policy on admissions into the Fund and sets out the considerations for current and former *admission bodies*. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an “admission agreement” with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the ICPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the ICPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

### ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

## ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the ICPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the ICPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the ICPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the ICPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

## PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the employing body’s notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

## EXITING THE FUND

### TERMINATION OF AN EMPLOYER’S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

The ICPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the ICPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the ICPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the ICPF. Therefore, a separate assessment of the assets to be transferred will be required.

## FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in

any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

## MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	31 March 2016
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 1.75% p.a. from 1.5% used in the 2016 valuation for ongoing funding and contribution purposes.

## APPENDIX D – GLOSSARY

**Actuarial Valuation:** an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

**Administering Authority:** the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

**Admission bodies:** A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

**Benchmark:** a measure against which fund performance is to be judged.

**Best Estimate Assumption:** an assumption where the outcome has a 50/50 chance of being achieved.

**Bonds:** loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

**Career Average Revalued Earnings Scheme (CARE):** with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

**CPI:** acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

**Covenant:** the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

**Deficit:** the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

**Deficit recovery period:** the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

**Discount Rate:** the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

**Employer's Future Service Contribution Rate:** the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

**Employing bodies:** any organisation that participates in the LGPS, including admission bodies and Fund employers.

**Equities:** shares in a company which are bought and sold on a stock exchange.

**Fund / Scheme Employers:** employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

**Funding or solvency Level:** the ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.



**Funding Strategy Statement:** this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

**Government Actuary's Department (GAD):** the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

**Guarantee / guarantor:** a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

**Investment Strategy:** the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

**Letting employer:** an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

**Liabilities:** the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**LGPS:** the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

**Maturity:** a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**Members:** The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependents of deceased ex-employees).

**Minimum risk basis:** an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

**Orphan liabilities:** liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**Percentiles:** relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

**Phasing/stepping of contributions:** when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped

or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

**Pooling:** employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

**Prepayment:** the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

**Present Value:** the value of projected benefit payments, discounted back to the valuation date.

**Profile:** the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

**Prudent Assumption:** an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

**Rates and Adjustments Certificate:** a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

**Real Return or Real Discount Rate:** a rate of return or discount rate net of (CPI) inflation.

**Recovery Plan:** a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

**Scheduled bodies:** types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**Section 13 Valuation:** in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the



Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

**Solvency Funding Target:** an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

**Valuation funding basis:** the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

**50/50 Scheme:** in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

### **12.3 Governance policy statement**

This statement is prepared for the purposes of The Local Government Pension Scheme Regulations 2013. 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.

#### **12.3.1. 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.

#### **12.3.2. Delegation of functions**

Governance principles: Effective board delegation; appropriate accountability

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

##### **12.3.2.1 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 Corporate Director of Resources.

### **12.3.2.2 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 Corporate Director of Resources shall be responsible for maintaining the Funding Strategy Statement (please see 9.3.4.5. Relevant documents).

### **12.3.2.3 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 Corporate Director of Resources 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 Corporate Director of Resources shall be responsible for maintaining the Investment Strategy Statement of (please see 9.3.4.5. Relevant documents).

### **12.3.2.4 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 Corporate Director of Resources shall be responsible for making all arrangements for the Annual General Meeting.

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

#### **12.3.2.5. Risk management**

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

Delegated to the Corporate Director of Resources

#### **12.3.3. 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](http://www.islington.gov.uk/council).

The constitution also defines that day to day management of the pension fund is delegated to the Corporate Director of Resources

#### **12.3.3.1. 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 Volunteer Matters (formerly 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 Allenbridge Investment Advisers.

### **12.3.4 Operational procedures**

#### **12.3.4.1 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.

#### **12.3.4.2 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.

#### **12.3.4.3 Reporting and monitoring**

Governance principle: Rigorous supervision and monitoring

The pension's 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 pension's 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 if required. Managers will be seen regularly by the Corporate Director of Resources between these presentations in line with requirements of the regulations.

Pension's 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.

#### **12.3.4.4 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.

#### **12.3.4.5. Relevant documents**

##### **Funding Strategy Statement**

The current published Funding Strategy Statement is online at [www.islington.gov.uk/advice/council\\_pension\\_scheme](http://www.islington.gov.uk/advice/council_pension_scheme).

##### **Investment Strategy Statement**

The current published Investment Strategy Statement is online at [www.islington.gov.uk/advice/council\\_pension\\_scheme](http://www.islington.gov.uk/advice/council_pension_scheme).

## **12.4 Communication policy**

The Local Government Pension Scheme Regulations 2013 require each administering authority to prepare, maintain and publish a policy statement setting out its policy on communicating with members, their representatives, prospective members and their employing authorities.

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

The methods of communication will be as follows:

- Access to the Pension pages on IZZI and the external website, with updates as required and links to the LGE Pension website.
- An Annual General Meeting.
- Briefing notes to employers participating in the Pension Fund, on an as and when required basis.
- Annual Benefits Statements to current scheme members and those with deferred pensions.
- Annual Monitoring of HM Revenues & Customs maxima in respect of the annual growth of individuals LGPS benefits; and notification to those individuals where the limit may be breached.
- Every three years from April 2013 the current employees who have opted out of the LGPS are re-enrolled into the scheme, and prior notification is provided to each individual affected.
- Notification to be provided to employees who opted out of the LGPS before April 2013 that they will become members of the scheme from October 2017.
- Departmental 'roadshows' will be provided on the LGPS, as required.

- Pre-Retirement Courses – a session on the LGPS is delivered at these regular events.
- Individual counselling: Scheme members, persons in receipt of a Local Government Pension, and former employees with deferred pensions will, on request, be given a private appointment to discuss their pension rights.
- Persons in receipt of an LGPS Pension will be notified each April of any inflation proofed increase being applied, together with the payment dates for the next 12 months.
- Payment advices will be sent to each pension recipient every March and April, plus in May if an index linked increase occurs. In other months a payment advice will be sent if the net pay differs by more than £2.00 compared to the previous period.
- Pension recipients will be sent a P60 statement of earnings by the end of May each year, relating to payments made for the year to 5<sup>th</sup> April.

## **12.5 Governance compliance statement**

### **12.5.1. 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 pensions-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.

### **12.5.2. 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, e.g, 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 pensions-sub committee comprises of three trade union observers, an admitted body observer and a pensioner representative. The sub-committee has also appointed an independent adviser who attends all the quarterly meetings.
- b) All the members of the pension sub-committee are distributed papers and reports seven working days before the meetings are held.

### **12.5.3. 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 pensions sub-committee are aware of their roles and responsibilities

### **12.5.4. 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.

### **12.5.5. 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.

### **12.5.6. 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 pensions sub-committee meets at least 4 times a year.
- b) No secondary committee.
- c) Not required since there is representation of stakeholders.

### **12.5.7. 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 pensions sub-committee papers are sent to members at least 5 working days prior to the meeting.

### **12.5.8. 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.

### **12.5.9. 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.

# 13: 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

**Email:** [pensions@islington.gov.uk](mailto:pensions@islington.gov.uk)

**Telephone:** 020 7527 2382

**By post:** Head of treasury and pension fund management  
Finance Department  
Islington Council  
7 Newington Barrow Way  
London  
N7 7EP