

London Borough of Islington Pension Fund Annual Report 2017/18

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Foreword

Dear Pension Scheme Member

Welcome to the Islington Council pension fund annual report for the 2017/18 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.

The improving global economy, robust corporate profits and fluctuating commodity prices dictated investment sentiment. Most asset classes in the LGPS environment delivered positive returns with property delivering the best returns. Politics and Brexit were key themes with a UK snap election resulting in the government losing its majority. The effects of a weak pound, higher inflation and persistence growth led the Bank of England to increase base rate to 0.5% in November and signalled further rate rises. The fund returned 4.1% and increased its market value to £1.3billion mainly driven by our equities allocation. This led Members to implement an equity protection strategy in February 2018. This strategy should protect some of the gains from growth in equity investments since actuarial valuation in March 2017 and hence reduce the funding deficit and contributions for the next valuation in March 2020.

The London CIV, our asset pooling organisation completed a governance and investment review and consultation process in March 2018 and commenced the new governance structure implementation in July at the Annual General Meeting. Assets under management on Authorised Contractual Scheme (ACS) platform totalled £6.9bn and £9.3bn passive equities assets managed externally by Blackrock and Legal and General. The asset classes available are equities and multi asset, multi asset credit and more credit portfolios are due to be launched in 2018.

The Pensions-Sub Committee and the Pension Board continue to monitor and review Environment, Social and Governance(ESG) factors as 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 Fund has reduced 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 reduced its 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.

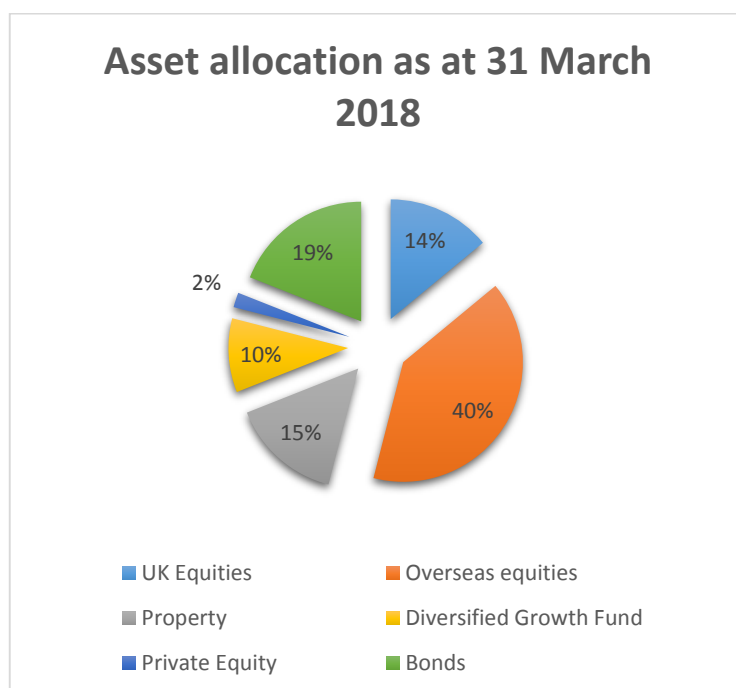
Cllr Dave Poyser

Chair of Pensions Sub-Committee

1: Investment report

The 2017/18 year saw the whole Fund deliver an absolute positive return of 4.1% and an increase in market value to £1.3bn.

During the year to 31 March 2018 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 2018

Manager	Mandate	Market value £'000	12-month return %
Islington Council Treasury team	UK equities	175,400	1.1
London LGPS CIV Allianz sub fund	Global equities	107,100	9.0

Manager	Mandate	Market value £'000	12-month return %
London LGPS CIV Newton sub fund	Global equities	191,900	1.6
Legal and General	Global equities	147,200	2.1
BMO(1)	Emerging/ Frontier equities	74,800	n/a
Standard Life	Corporate bonds	248,500	1.6
Aviva	Property	64,300	8.1
Columbia Threadneedle	Property	84,800	10.3
Franklin Templeton	Property	18,800	0.7
Standard Life	Private equity	19,800	5.3
Pantheon	Private equity	6,500	21.9
Hearthstone	Property	27,700	4.2
Schroders	Multi Asset	128,500	5.2
BNY Mellon(2)	Cash deposits	6,900	n/a
LGIM	Investment Fund	31,800	n/a
Total Market Value		1,334,000	

(1) BMO portfolio commencement May 2017

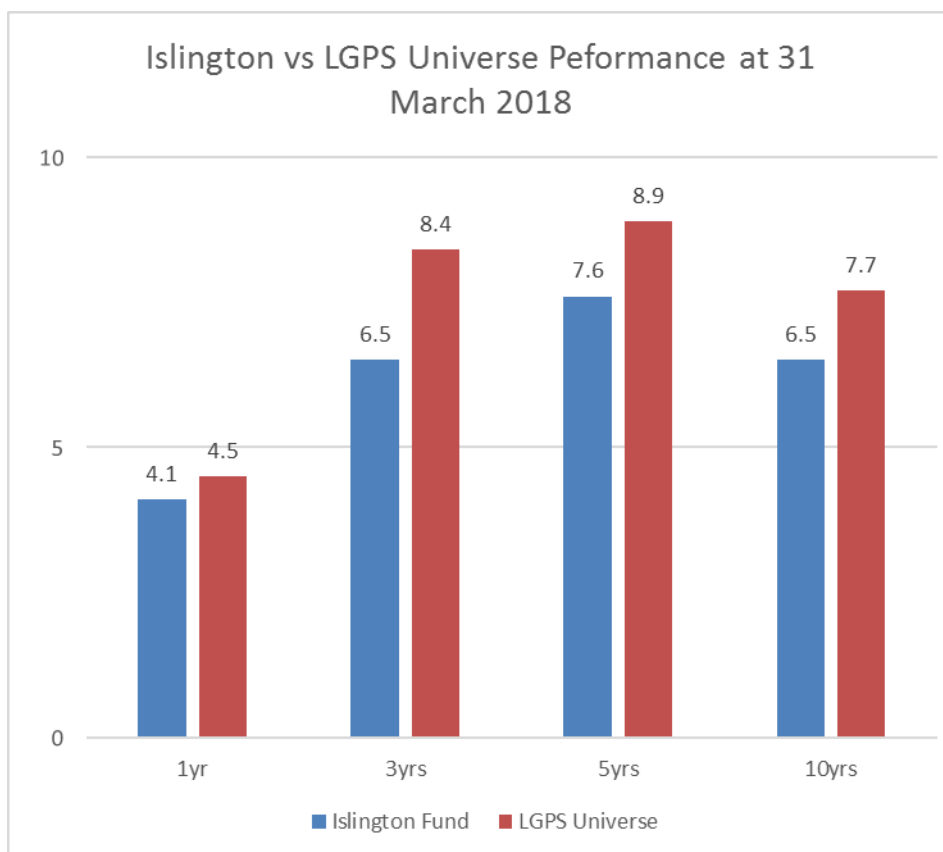
(2) BNY Mellon hedge overseas equities holdings/LGIM equity investment fund

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.

Period	1 year	3 year	5 year
Fund return per annum %	4.1	6.5	7.6
Benchmark%	2.8	5.9	7.3

Over the 20- year period the fund has returned 5.6% per annum in absolute terms.

1.2.1 The 2017/18 year saw the average local authority fund return just over 4.5%. Asset returns were tightly grouped with bonds, equities and alternatives returning 1%, 4%, and 6% respectively for the year. Property was the best performing asset class returning 10% for the year. Sterling appreciated during the year and hence funds that hedged overseas currencies added value. 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.



The Fund's performance has been disappointing compared to its peers mainly because of poor performance of our equity managers in 2017 however over the long term it has been less volatile and more importantly outperformed inflation and the actuarial assumption on asset growth.

The 10 Top Holdings in our segregated equity accounts are listed in the table below as at 30 June 2018.

INSTITUTION	MARKET VALUE (£'000s)
ROYAL DUTCH SHELL PLC	14,676
HSBC HOLDINGS PLC	9,735
GLAXOSMITH	7,635
BP	5,095
BRITISH AMER ICA	4,914
DIAGEO PLC	4,718
ASTRAZENECA PLC	4,559
MICROSOFT COM	3,980
RIO TINTO	3,825
GLENCORE	3,539

It is worth noting that due to the Fund's low carbon strategy and restructuring our holdings in Royal Dutch Shell and BP has reduced from 2017 levels (£20.7m and £10.2m respectively).

2: Pooling

Islington is one of 33 London local authorities who have become active participants in the London CIV programme. The CIV has been constructed as a FCA regulated UK Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund. A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The London CIV received its ACS authorisation in November 2015.

Since then it has secured regulatory approval, established a team of 16 staff and by the end of this year will have brought £14bn of LLAs assets under LCIVs oversight. In the current year, there will be an annualised £6m of savings to the LLAs in management fees as a result of the work of the CIV. This puts the CIV some way ahead of the other pooled funds that are currently being established.

Islington has three funds managed on the LCIV platform; global active equities valued at £299m and global passive equities of £147.2m. As more funds and asset classes become available and meet our needs we will look to transfer more assets.

Review of Governance Structure

The shareholder governance of the London CIV will now move to the revised meeting structure of two General Meetings and Quarterly Shareholder Meetings in line with the Terms of Reference, and the sectoral joint committee of London Councils will be dissolved with the written agreement of all the participating local authorities all being shareholders in the London CIV.

The snap shot of a recent AGM held on 12 July is as follows:

Financial Matters

In summary, the company report and financial statements for the year ended 31 March 2018 were approved, as was the Regulatory Capital Statement.

CEO and Chair's report

The CEO and Chair's report included a report on performance against the Medium Term Financial Strategy and key issues facing London CIV.

The presentation by the Chair, Lord Kerslake and CEO, Mark Hyde-Harrison, included work to date, and expected to continue in the shareholder committee, to ensure that the product offer and services provided by London CIV met borough's expectations.

Other key highlights from the report were the work to:

- begin the process of implementing the new governance framework changes agreed in principle in March 2018, which was a separate item on the AGM agenda
- launch 5 new funds in the financial year
- the management and oversight of nearly £15bn of assets (active and passive) which represents around 40% of total assets under management across the 32 London Local Authorities (LLAs) and City of London.

- approval from the Financial Conduct Authority (FCA) to manage Unauthorised Alternative Investment Funds (UAIF) as agreed by shareholders to allow London CIV to offer alternative and illiquid funds as part of the product range e.g. infrastructure
- the stakeholder consultations and one-to-one meetings with individual LLAs to identify what product offer will best meet the requirements of pension strategies and inform London CIV's "road map"
- contract award for administration of the alternative funds platform to Northern Trust following an OJEU tender and commencement of the OJEU process for the Investment Oversight System

New Governance Framework

The new governance framework was approved. The new Shareholder Committee is expected to hold its first meeting in mid-October, a slightly later date than first envisaged to ensure the maximum number of members can attend.

There was a consensus at the AGM that it would be helpful to appoint alternates and this is being followed up so that it can be put in place from the first meeting.

The first two Shareholder Committee meetings will provide a sounding board for work on the Medium Term Financial Strategy (MTFS) and Business Plan which comes to the next general meeting of all shareholders in late January.

The MTFS is essentially a rolling "road map" for the development of London CIV. This will make use of the work undertaken over the last few months to map LLA asset strategies onto a potential London CIV product offer.

The final version of the Responsible Investment Strategy is also expected to be an item for the Shareholder Committee agenda.

The meeting will also discuss corporate and financial performance and any significant financial matters.

As requested at the AGM we will be in contact with LLAs on an individual basis to progress signing the pension recharge and guarantee agreement in the meantime.

Written Notice to approve dissolution of the PCSJC

To implement the change all London Local Authorities, need to sign the written notice agreeing to the dissolution of the PCSJC. The procedural arrangements for obtaining approval and signature vary from borough to borough and we recognise that in some cases Cabinet or even full Council approval may be required given that this is a constitutional matter. So far we have received signed written notices from about 1/3 of LLAs.

Appointments *London CIV Board*

Cllr Stephen Alambritis and Cllr Ravi Govindia CBE were appointed as Non-Executive Directors of London CIV, subject to FCA approval.

The name of the Treasurer Observer on the Board is to be confirmed.

The members of the Shareholder Committee are as follows:

Councillors

Cllr Antonia Cox (Westminster)

Cllr Robert Chapman (Hackney)

Cllr Yvonne Johnson (Ealing) - expected to be elected by the members of the Committee as Committee Chair

Cllr Elaine Norman (Redbridge)

Cllr Mark Shooter (Barnet)

Cllr Keith Onslow (Bromley)

Cllr Jill Whitehead (Sutton)

Andrew McMurtrie (City of London)

Alternates

Cllr Simon Hall (Croydon)

Cllr Nitin Parekh (Harrow)

Cllr Doug Taylor (Enfield)

Nick Bensted-Smith (City of London)

Treasurers, nominated via the Society of London Treasurers

Caroline Holland (Merton)

Ian Williams (Hackney)

Gerald Almeroth (Sutton)

Duncan Whitfield (Southwark)

Trade Union Observer

Chris Cooper

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 2018

	UK & British Overseas	Europe & Global EU	Rest of the World	Total
For	377	65	4	446
Abstain	19	1	0	20
Oppose	90	7	0	97
Non-Voting	0	1	0	1
Withdrawn	1	0	0	1
Total	487	74	4	565

4: 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'.

4.1 The key objectives of the four- year business plan, last reviewed in June 2017 are listed below along with actions taken to June 2018:

- ◆ 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

Actions:

- Actuary presented an update on Equity gains and its impact on funding level
- Members agreed to reallocate £50m from its bond portfolio to the HLV property
- An equity protection strategy was implemented in February 2018 to March 2020 with the payment of a one off premium
- The independent adviser service was retendered and an initial 5year contract awarded to Allenbridge MJ Hudson
- Members agreed to be elected for professional client status and completed the necessary application for MIFID II effective from 3 Jan 2018.
- A speaker from Carbon Trust presented at Annual meeting in Oct'17

- ◆ To continually improve our administration in order to deliver an excellent and cost effective service to all Fund Members
Actions:
 - Annual benefit statements are due out before 29 August.
 - Pension Board discussed bulk transfer commutation and requested further analyses on the data.
 - Pension Board gave their communication comments on a frequent asked question (FAQ) page in the 2017 Annual report and received and noted the pension fund year- end accounts

- ◆ To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact
Actions:
 - Work with LAPFF and IIGCC, and the LCIV continues
 - Members received a presentation from Mercer on ESG rating and climate risk assessment of our existing fund managers, this becoming a basis for monitoring and reporting.
 - Received a presentation from PIRC on LAPFF engagement and governance
 - Low carbon property workplace fund manager presented to Members in June 2017

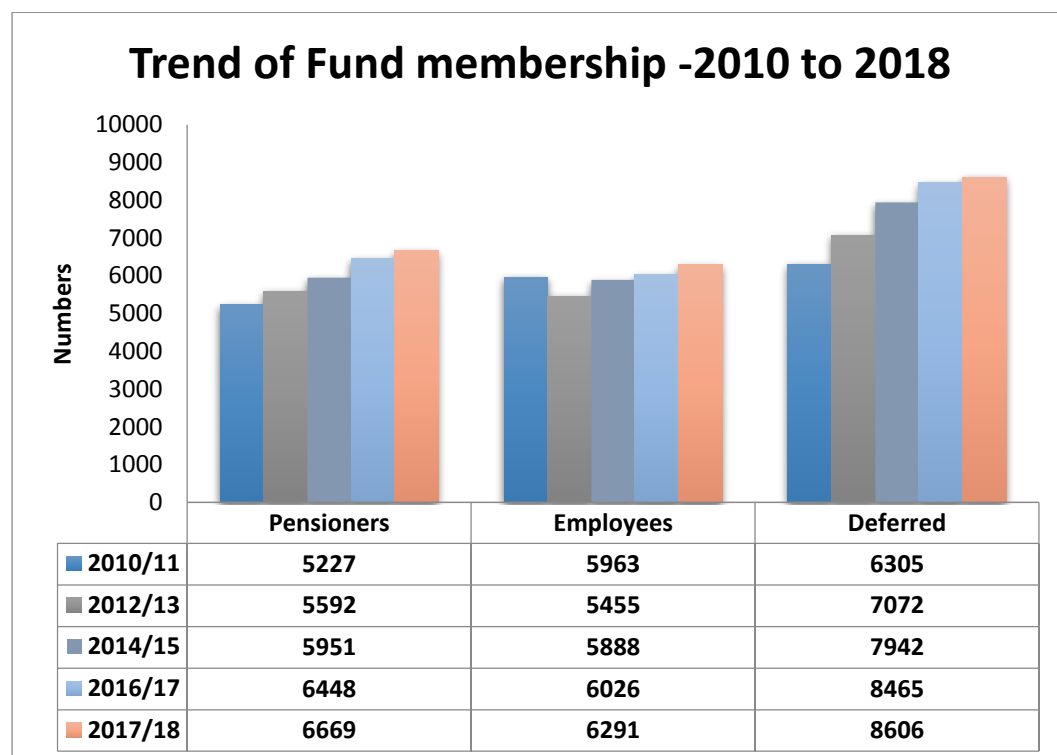
- ◆ To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
Actions:
 - Alternative residential investment provider presented to Members in June 2017
 - Members expressed interest in 3rd party fund of fund managers on infrastructure implementation and received a manager presentation as training
 - Training sessions before and during and committee meetings continue.

- ◆ To develop collaboration opportunities with other funds for sharing of services and pooling
 - Officers are collaborating with 2 other interested local authorities in a joint tender for infrastructure
 - The LCIV gave a presentation to Members on progress and outlined priorities for 2018.
 - Members gave their comments on the consultation of the LCIV governance review and new structure was agreed at their July AGM.

5: The local government pension scheme

5.1. 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 2018 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
March 2018	21,566

5.2 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).

5.3 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 £14,100	5.5
£14,101 to £22,000	5.8
£22,001 to £35,700	6.5
£35,701 to £45,200	6.8
£45,201 to £63,100	8.5
£63,101 to £89,400	9.9
£89,401 to £105,200	10.5
£105,201 to £157,800	11.4
More than £157,800	12.5

5.4 Retirement age

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

5.5 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.:

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

5.6 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. The next re-enrolment date for those who have opted-out is 1st April 2019.

5.7 Pension administration performance

The table below gives the data for the average performance for the year to 31 March 2018, in respect of the main procedures.

Process	Target days to complete	Volume	Target % Achievement	% Achieved within target days	Actual average days
Deaths	5	79	95%	92.41%	4.38

Retirement benefits	5	189	95%	89.95%	4.11
Pension estimates	10	366	95%	92.90%	7.41
Preserved benefit calculations	15	260	95%	83.85%	12.00
Transfer-in quotation	10	35	95%	85.71%	9.11
Transfer-in actual	10	21	95%	85.71%	10.00
Transfer out quotation	15	69	95%	91.30%	13.00
Transfer out actual	12.5	13	95%	100.00%	1.23

Over the period, 89.34% of the 1,633 processes undertaken by the Pensions Administration team were completed within the target days.

5.8 GDPR

The General Data Protection Regulation (GDPR) is a new set of European Union (EU) regulations which was implemented in the UK on 25 May 2018. The GDPR replaces the Data Protection Act 1998. These regulations extend rights for individuals in relation to the personal data an organisation holds about them and the use of that personal data. GDPR also sets an obligation on organisation for stronger data management. Islington Council Pension Fund in compliance with GDPR has issued on its website a Privacy Notice to its members. This explains how personal information is obtained and going to be used, what it is used for, who it might be shared with and why, and for how long it is kept. More information on our Privacy Notice is available at:

<https://www.islington.gov.uk/jobs-and-careers/privacy-notice-islington-council-pension-fund>

5.9 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:

<u>Surname range</u>	<u>Telephone enquiries</u>	<u>Email enquiries</u>
A – CARS	020 7527 2993	sarah.watts@islington.gov.uk
CART – GOP	020 7527 2409	algie.theodoric@islington.gov.uk
GOR – MACH	020 7527 6733	romel.senior-walcott@islington.gov.uk

MACK – Q
R – SO
SP – Z

020 7527 2165
020 7257 2320
020 7527 2167

partricia.assam@islington.gov.uk
yonatan.worku@islington.gov.uk
kelly.thompson@islington.gov.uk

6: Democratic arrangements

6.1 Pensions Sub-Committee

For 2017/18 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 after Elections in May 2018 are:

Membership

Cllr Dave Poyser (Chair)
Cllr Andy Hull (Vice Chair)
Cllr Sue Lukes
Cllr Michael O'Sullivan

Substitutes

Cllr Mouna Hamitouche MBE
Cllr Angela Picknell
Cllr Flora Williamson
Cllr Jenny Kay

Other Representatives:

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

Fund Investment Advisors:

Mercer
MJ Hudson Allenbridge

Fund Actuary:

Mercer

Fund Custodian:

BNY Mellon

Performance Monitoring:

BNY Mellon

Corporate Governance Research and Voting Advice Service:

Pension Investments Research Consultants

6.2. 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 Pensions 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

The membership of the board is as follows:

Councillor Paul Smith	Employer representative- Chair
Maggie Elliott – Governor at COLAHG, Hargrave Park and Montem-Drayton Primary School	Employer representative-Vice Chair
George Sharkey, GMB	Member representative
Mike Calvert, Unison	Member representative
Marion Oliver/ co- rep vacant	Retired members representative
-	Employer representative
David Bennett- (resigned in September 2018)	Independent member

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 2017/18, the Board met on 5 September 2017 and 5 March 2018. Members receive copies of agenda and reports of the pension sub-committee and vice versa.

6.3 Activities of the Board

- (i) The Board agreed a work plan in 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 received a presentation from the Fund actuary on trivial commutation and agreed that officers undertake further analyses and only proceed if savings would outweigh the extra administration cost
- (iii) They were notified of a breach; the late availability of annual benefit statement. Action taken to notify the regulator, notify members and steps put in place to mitigate another occurrence was agreed at their September meeting.
- (iv) They also considered the London CIV consultation on their proposed governance structure and relayed their views to the pensions sub-committee.

Copies of minutes and agenda items can be found on the council external website

<http://democracy.islington.gov.uk>

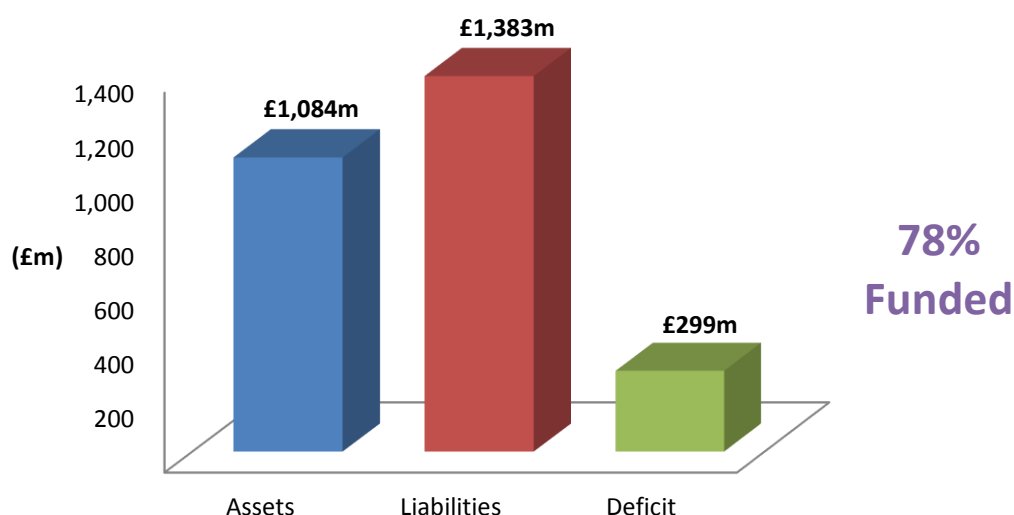
7. Funding of the pension scheme

7.1 Accounts for the year ended 31 March 2018 - Statement by the Consulting Actuary

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

An actuarial valuation of the Islington Council Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,084 million represented 78% of the Fund's past service liabilities of £1,383 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £299 million.



The valuation also showed that a Primary contribution rate of 14.7% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus). The Secondary rate of the employer's contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 22 years, and the total initial recovery payment (the “Secondary rate”) for 2018/19 is approximately £8.7 million (which also includes allowance for some employers to phase in any increases).

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4%/4.5% per annum**	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

**depending on covenant strength, as agreed with the Administering Authority

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / Care Revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / deferment	2.3% per annum	2.2% 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 March 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £2,101 million. Interest over the year increased the liabilities by c£53 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£19 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £82 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, 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 2018 is therefore £2,091 million.

Ian Kirk

Fellow of the Institute and Faculty of Actuaries

Clive Lewis

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

June 2018

8: Summary of financial report

8.1 Income and expenditure for 2017/18

The net assets of the scheme were worth £1,307 million. This is an increase of 4% compared to last year.

Employees' contributions totalled £11.9million compared to 11.6million in 2016/17

Employers' contributions amounted to £33.3 million compared to the £35.9 million in the previous year. The £2.6million decrease was mainly attributable to a much reduced early retirement capital cost.

Pensions paid totalled £44.6 million compared to £42.3million in 2016/17, a rise of 5.4%.

As at 31 March 2018 the total income into the fund was £66.3million against an expenditure of £59.6 million. This means that the fund was able to meet all its commitments from contributions and investment income.

The detailed reporting of the pension fund accounts for 2017/18 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.

9: 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 25-60 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 2018 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.



Alan Layton

Service Director Financial and Asset Management (Section 151 Officer)

10: Statement of accounts 2017/18

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 2016 (as amended ("the 2016 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 2016, cover fund management and suitable investments. The Pension Fund Accounts have been drawn up in accordance with the 2017/18 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 Investment Strategy Statement, 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 2016 (as amended) (“the 2016 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 Academy	Scheduled Body
City of London Academy Islington	Scheduled Body
William Tyndale Primary School	Scheduled Body
The New North Academy	Scheduled Body
St Mary Magdalene Academy: the Courtyard	Scheduled Body
Tech City College (formerly Stem 6th)	Scheduled Body
Elliot Foundation	Scheduled Body
The Family School	Scheduled Body
The Bridge Integrated Learning Space	Scheduled Body
The Bridge School	Scheduled Body
The Bridge Satellite Provision	Scheduled Body
City of London Academy Highbury Grove	Scheduled Body
City of London Primary Academy, Islington	Scheduled Body
Clerkenwell Parochial CofE Primary School	Scheduled Body
City of London Academy, Highgate Hill	Scheduled Body
Volunteering Matters (formerly CSV)	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
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
Pabulum	Admitted Body

There are also fifteen 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
 Kier Support Services
 Circle Anglia

10.1 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 2017/18 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:

10.1.1 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 2018.

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.

10.1.2 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.

10.1.3 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 2018.

10.1.4 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.

10.1.5. 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.

10.1.6. 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.

10.1.7. 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.

10.1.8. Stock Lending

The fund does not participate in stock lending.

10.1.9. 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 2016. Total contribution paid by members during 2017/18 amounted to £128k and the value of the fund as at 31 March 2018 was £1.4m.

10.1.10. 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.

10.2 Fund Account

2016/17	Pension Fund Account (dealing with members, employers and others directly involved in the scheme)		2017/18	
£'000			£'000	Note
Contributions Receivable				
35,920	Employer contributions		33,327	2a
11,609	Members contributions		11,883	2
2,785	Transfers in from other pension funds		4,156	3
2,238	Other		2,662	4
52,552	Total Contributions		52,028	
Benefits Payable				
(42,329)	Pensions		(44,632)	5
(9,954)	Lump sum benefits		(6,551)	5
(2,951)	Payment to and on account of leavers		(5,714)	6
(55,234)	Total Benefits Payable		(56,897)	
(2,370)	Management Expenses		(2,698)	7
(5,052)	Net additions/ (withdrawals) from dealing with members		(7,567)	
Returns on investments				
8,230	Investment income		14,347	8
167,981	Change in market value (realised & unrealised)		45,755	
176,211	Total Returns on investments		60,102	
Net return on investments				
171,159	Net increase/decrease in fund in year		52,535	
1,083,727	Opening net assets of the scheme		1,254,886	
1,254,886	Closing net assets of the scheme		1,307,421	

10.3 Net Assets Statement

2016/17 £'000	Net Assets Statement for the year ended 31 March 2018	2017/18 £'000	Note
Investments			
1,222,614	Investment assets	1,319,901	9
30,995	Other Investment and Cash	14,084	9
1,253,609	Total Investments	1,333,985	
Assets and Liabilities			
10,942	Current assets	5,176	10
(9,674)	Total Liabilities	(31,740)	11
1,254,886	Net assets of the scheme at 31 March	1,307,421	

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.

10.4 Notes to the Pensions Account

10.4.1. Basis of Preparation

The statement of accounts summarises the fund's transactions for the 2017/18 financial year and its positions as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* 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.

10.4.2 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*	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority						
Islington Council	30,038	30,011	-		3,324	1,385
Scheduled Bodies						
St Mary Magdalene Academy	187	203	-	-	-	-
City of London Academy Islington	112	134	-	-	-	-
The New North Academy	77	85	-	-	-	-
William Tyndale Primary School	86	91	-	-	-	-
St Mary Magdalene Academy: the Courtyard	20	15	-	-	-	-
Tech City College(Stem 6th form Academy)	11	11	-	-	-	-
Elliot Foundation	41	85	-	-	-	-
The Bridge Integrated Learning Space	11	21				
The Family School	9	14				
The Bridge School	-	428				
City of London Academy Highbury Grove	-	49				
City of London Academy, Highgate Hill	-	45				
The Bridge Satellite Provision	-	5				
City of London Primary Academy, Islington	-	14				
Clerkenwell Parochial CofE Primary School	-	22				
Admitted bodies						
Volunteering Matters(CSV)	615	149	-		-	-

Circle Anglia	6	-	-		810	
Camden & Islington NHS Foundation Trust	79	77	-	-	-	
Brunswick	1	18	-	-	-	-
NCP Services (Islington South)	21	-	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	11	12	-	-	-	-
Southern Housing Group	6	4	-	-	-	-
Braithwaite	5	5	-	-	-	-
Pleydell	17	16	-	-	-	-
Caterlink	158	154	-	-	-	-
Engie Services Ltd(Cofely Workplace Ltd)	135	133	-	-	-	-
R M Education	9	6	-	-	-	-
Breyer Group	6	5	-	-	-	-
Mears Ltd	31	29	-	-	-	-
WJ Catering	3	2				
Isledon Arts CIC	9	8				
Greenwich Leisure Ltd	82	82	-	-	-	-
Pabulum	-	9	-	-	-	-
Totals	31,786	31,942	0	0	4,134	1,385

*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)	
	2016/17	2017/18
	£'000	£'000
Administering Authority		
Islington Council	11,077	11,148
Scheduled Bodies		
St Mary Magdalene Academy	100	104
City of London Academy Islington	56	65
The New North Academy	31	33
William Tyndale Primary School	24	26
St Mary Magdalene Academy: the Courtyard	11	10
Tech City College (Stem 6th form Academy)	14	10
Elliot Foundation	50	97
The Bridge Integrated Learning Space	10	12
The Family School	4	6
The Bridge School	-	127
City of London Academy Highbury Grove	-	16
City of London Academy, Highgate Hill	-	16
The Bridge Satellite Provision	-	3
City of London Primary Academy, Islington	-	5
Clerkenwell Parochial CofE Primary School	-	7
Admitted bodies		
Volunteering Matters (CSV)	-	-
Brunswick	1	6
Circle Anglia	-	-
Camden & Islington NHS Foundation Trust	24	12
NCP Services (Islington South)	9	9
SSE Contracting Ltd (Islington Lighting)	2	3
Southern Housing Group	1	5
Braithwaite	2	2
Pleydell	7	6

Caterlink	79	52
Engie Ltd (Cofely Workplace Ltd)	47	48
R M Education	5	3
Breyer Group	4	3
Mears Ltd	11	9
WJ Catering	1	1
Isledon Arts CIC	3	3
Greenwich Leisure Ltd	36	34
Pabulum	-	2
Totals	11,609	11,883

10.4.3 Transfers in

2016/17 £'000	Transfers in	2017/18 £'000
-	Group transfers in from other schemes	
2,785	Individual transfers in from other schemes	4,156
2,785	Total transfers in	4,156

10.4.4. Other Income

2016/17 £'000	Other Income	2017/18 £'000
0	Income from Other Investments	
0	Interest	
2,238	Other	2,662
2,238	Total other income	2,662

10.4.5 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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority						
Islington Council	39,246	41,499	8,534	5,114	1,041	1,337
Scheduled Bodies						
St Mary Magdalene Academy	22	23	1	14	-	-
St Mary Magdalene Academy: the Courtyard	-	3	-	7	-	-
City of London Academy Islington	28	29	-	-	-	-
William Tyndale Primary School	19	19	-	-	-	-
The New North Academy	9	9	-	-	-	-
Admitted bodies						
Volunteering Matters (CSV)	1,041	1,099	206	54	-	-
Aquaterra	220	220	-	-	-	-
Circle Anglia	65	68	64	-	-	-
Camden & Islington NHS Foundation Trust	51	52	-	-	-	-
CEA	804	809	-	-	-	-
FSST	4	3	-	-	-	-
Kier Islington Ltd (Caxton)	585	570	-	-	-	-
NCP Services (Islington South)	33	4	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	52	53	-	-	-	-
Redbrick	2	2	-	-	-	-
Mouchel Parkman	31	31	-	-	-	-
St Lukes	2	2	-	-	-	-
ALA	17	22	-	3	-	-

Brunswick	9	9	-		-	
Cushman & Wakefield LLP	8	8	-		-	
Caterlink	14	15	2			
Notting Hill Trust	8	8	-		-	
Kier Support Services	20	20	6		-	
Engie Ltd (Balfour Beatty)	13	19				
Breyers	1	-				
Mears	8	15	100			
Greenwich Leisure Ltd	17	21	-	22	-	
Totals	42,329	44,632	8,913	5,214	1,041	1,337

10.4.6 Payments to and on Account of Leavers

2016/17 £'000	Payment to and on Account of Leavers	2017/18 £'000
101	Refunds of Contributions	154
2,850	Individual Transfer	5,560
2,951	Total payments to and on account of leavers	5,714

10.4.7 Management Expenses

2016/17 £'000	Management Expenses	2017/18 £'000
1,230	Administrative Cost (7a)	1,242
824	Investment Management Expenses (7b)	1,010
316	Oversight and Governance Cost (7c)	446
2,370	Total Management Expenses	2,698

10.4.7(a) Administrative Expenses

2016/17 £'000	Administrative expenses	2017/18 £'000
890	Employee Cost	898
340	Support services	344
-	Other expenses	-
1,230	Total administrative expenses	1,242

All other costs of administration are borne by Islington Council.

10.4.7(b) Investment Expenses

2016/17 £'000	Investment Expenses	2017/18 £'000
761	Management Fees	961
63	Custody Fees	49
824	Total investment management expenses	1,010

10.4.7(c) Oversight and Governance Cost

2016/17 £'000	Oversight & Governance Cost	2017/18 £'000
5	Performance Management Services	21
155	Advisory Services Fees	386
54	Operation and Support	9
81	Actuarial Fees	9
21	Audit Fees	21
-	Legal Fees	-
316	Total Oversight & Governance Cost	446

10.4.8. Income from Investments

2016/17 £'000	Investment Income	2017/18 £'000
16,797	Dividends from equities	12,056
(11,135)	Income from other investments vehicles	(233)
2,494	Net rents from pooled investment properties	2,524
74	Interest on cash deposits	-
8,230	Total Investment income	14,347
-	Irrecoverable withholding tax	-
8,230	Total Investment income	14,347

10.4.9 Investments

Investments	Market value 01 Apr 17 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 Mar 18 £'000
Fixed interest securities	84			(4)	80
Indexed linked securities	131			(6)	125
Equities	452,558	23,607	309,326	(3,110)	163,729
Pooled investment vehicles (P.I.V)	553,993	681,802	334,050	32,334	934,079
Other Investment - P.I.V	-			-	
Properties - P.I.V	183,544	8,476	7,785	11,366	195,601
Private Equity - P.I.V	32,304	487	11,677	5,173	26,287
Venture Capital	-			-	
Total	1,222,614	714,372	662,838	45,753	1,319,901
Other Investment & Cash	30,995				14,084
Total Investments	1,253,609				1,333,985

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		2016/17 £'000	2017/18 £'000
Fixed interest securities (valued at Bid Price)			
Fixed interest securities (valued at Bid Price)		84	80
Total Fixed interest securities		84	80
Index -linked			
UK public sector quoted		131	125
Total Index -linked		131	125
Equities (valued at Bid Price)			
UK quoted		241,930	126,485
Overseas quoted		210,628	37,244
Total Equities		452,558	163,729
Pooled investment vehicles (valued at Bid Price)			
UK Managed Funds	Property	103,359	112,452
	Other : Bond	244,326	248,487
Overseas Managed Funds	Other : Equity	97,569	147,199
	Property	20,667	18,833
	Other : Private Equity	32,304	26,287
UK Unit trusts (valued at Bid Price)	Property	59,518	64,316
	Other	212,098	538,393
Total Pooled investment vehicles		769,841	1,155,967
Insurance policies			
Insurance policies		-	
Other investment balances (valued at Amortised cost)			
Outstanding trades		(2,053)	(2)
Outstanding dividends & RWT		2,659	1,686
Cash deposits : Sterling		30,389	9,100
Cash deposits : Other			3,301

Total Other investment balances	30,995	14,084
Total Investment Assets	1,253,609	1,333,985

Type of future	Expiration	Market Value	Market Value
UK FTSE exchange traded	Less than 1 year	-	
UK gilt exchange traded	Less than 1 year	-	
Total		-	-

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

10.4.10 Current Assets

2016/17 £'000	Current Assets	2017/18 £'000
3,643	Contributions due from Employers & Employee	1,525
(20)	Sundry Debtors	19
7320	Cash Balances	3,633
10,943	Total	5,177

10.4.11 Total Liabilities

2016/17 £'000	Current Liabilities	2017/18 £'000
(3,718)	Accrued Benefits	(601)
(4,359)	**Sundry Creditors	(11,249)
(208)	*Receipt in Advance	(8,920)
(1,390)	Accrued Expenses	(2,107)
(9,675)	Current liabilities	(22,877)
2016/17 £'000	Non-Current Liabilities	2017/18 £'000
-	*Receipt in Advance	(8,863)
(9,675)	Total Liabilities	(31,740)

* LBI Advance lump sum payment for 2018/19 & 2019/20

** Central Recharges & One off IT Cost

10.4.12 Benefits

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
Pension	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
Lump sum	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.

10.4.13 Contributions

Contributions are 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 2016, effective from 1 April 2017 fixed at 14.6% of pensionable payroll costs phased over 3 years (13.2% in 17/18). 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 £8.97m was made in 2017/18 (a discounted amount due to payment in advance in April 2017)
- 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

10.4.14 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 2016.

The Pension Fund Triennial revaluation carried out as at 31 March 2016 came into effect in terms of altered employer contributions from 1 April 2017 to 31 March 2020. Under this revaluation the Fund assets were valued at £1,084m and, a deficit of £299m. The funding level has improved to 78% compared to 70% at 31 March 2013.

The actuary has defined a common employer contribution rate of 14.7% of pensionable pay per annum, and an average additional contribution of 6% of pensionable pay for 22 years to eliminate the deficit. This would imply an average employer contribution rate of 20.7% 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 3.7% 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 (2016 valuation) were as follows for future service:

- Rate of return on investments 4.95% per annum
- Rate of general pay increases 3.7% per annum
- Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions) 2.2% 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.

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.

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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / Care Revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / deferment	2.3% per annum	2.2% per annum

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

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £2,101 million. Interest over the year increased the liabilities by c£53 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£19 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £82 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, 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 2018 is therefore £2,091 million.

10.1.15 Fund Membership

Membership of the Fund	Administering Body		Admitted Bodies		Scheduled Bodies		Totals	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	No's	No's	No's	No's	No's	No's	No's	No's
Employees Contributing into the Fund	5,562	5,690	137	124	327	477	6,026	6,291
Pensioners	5,057	5,193	391	403	15	17	5,463	5,613
Widows/ Children's Pensions	934	1,001	47	50	4	5	985	1,056
Deferred Benefits	7,529	7,682	773	755	163	169	8,465	8,606
Totals	19,082	19,566	1,348	1,332	509	668	20,939	21,566

10.4.16 Additional Voluntary Contributions

2016/17		2017/18
<i>Market Value</i>	Additional Voluntary Contribution	<i>Market Value</i>
<i>£'000</i>		<i>£'000</i>
1,098	Prudential	1,099
224	Equitable life	224
90	Phoenix Life (Formerly NPI)	83
1,412	Total Additional Voluntary Contributions	1,406

10.4.17 Contingent Assets and Liabilities

There were no contingent assets or liabilities in 2018/19.

10.4.18 Contractual Commitments

There were no contractual commitments at the period end.

10.4.19 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 2018, the Pension Fund held in receipt for the Islington Council net amount of £28.3m (£2.9m 31 March 2017), which includes employers lump sum of £17.8m for periods 2018/19 to 2019/20. Full contributions from the council for the year are disclosed in Note 2.

10.4.20 Post Balance Sheet Events

None.

10.4.21 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 its 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.

10.4.22 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 31/03/18 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	171,055	10.20%	188,502	153,607
Overseas Equities	520,657	9.50%	570,120	471,195
Total Bonds	248,487	5.90%	263,148	233,826
Pooled Multi Asset	128,529	5.40%	135,470	121,589
Cash	11,564	0.50%	11,622	11,506
Property	195,601	3.30%	202,056	189,147
Private Equity	26,287	10.50%	29,047	23,526
Total Assets	1,302,180	6.00%	1,380,311	1,224,049

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(by asset class)	Final Market Value as at 31/03/18 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	520,657	6.00%	552,066	489,248
Overseas Private Equity	26,287	6.00%	27,872	24,701
Overseas property	18,833	6.00%	19,969	17,697
Total Assets	565,777	6.00%	599,907	531,646

10.4.23. 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 2018	Quoted Market Price Level 1 £'000	Using Observable Inputs Level 2 £'000	With Significant Unobservable inputs Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through profit and loss	1,293,614	40,371	-	1,333,985
Loans and Receivables		5,176	-	5,176
Total Financial Assets	1,293,614	45,547	-	1,339,161
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-	-	-	
Financial liabilities at amortised cost		(31,740)		(31,740)
Total Financial Liabilities	-	(31,740)	-	(31,740)
Net Financial Assets	1,293,614	13,807	-	1,307,421

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
Financial Assets				
Financial assets at fair value through profit and loss	1,190,310	63,299	-	1,253,609
Loans and Receivables	-	10,942	-	10,942
Total Financial Assets	1,190,310	74,241	-	1,264,551
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(9,674)	-	(9,674)
Total Financial Liabilities	0	(9,674)	-	(9,674)
Net Financial Assets	1,190,310	64,567	-	1,254,877

Valuation of financial instruments carried at 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.

10.4.24 Investment Assets by Fund Manager

Investment Assets by Fund Manager	2016/17 £'000	2017/18 £'000
LBI In House Fund		
EQUITIES		
UK quoted - LBI self-managed	220,905	126,485
Overseas quoted - LBI self-managed	52,629	37,244
CASH DEPOSITS		
Sterling	2,787	1,853
Other	10,410	2,817
OTHER INVESTMENT BALANCES		
Outstanding Dividends/Tax	1,698	1,174
Outstanding trades	-	-
FIXED INTEREST		
UK	84	80
INDEX-LINKED		
UK	131	125
POOLED FUNDS		
UK	6,936	4,080
		1,525
Total LBI In House Fund	295,580	175,383

Newton

EQUITIES

Overseas quoted - NEWTON

157,999

-

UK quoted - NEWTON

21,025

-

POOLED FUNDS

UK Quoted

190,907

Overseas quoted

CASH DEPOSITS

Sterling

10,029

109

Other

181

439

OTHER INVESTMENT BALANCES

Outstanding Dividends

769

411

Outstanding trades

(1,156)

Total Newton

188,847

191,866

RCM / LONDON CIV

EQUITIES

Overseas quoted - RCM

-

UK quoted - RCM

-

POOLED FUNDS

Other

97,915

106,770

CASH DEPOSITS

Sterling

192

279

Other

-

7

OTHER INVESTMENT BALANCES

Outstanding Dividends

191

101

Outstanding trades

-

Total RCM

98,298

107,157

Investment Assets by Fund Manager (contd.)		2016/17	2017/18
		<i>£'000</i>	<i>£'000</i>
Standard Life Bonds			
POOLED INVESTMENT VEHICLES			
Managed funds		244,326	248,487
Pantheon			
POOLED INVESTMENT VEHICLES			
Private equity - overseas		11,640	6,488
Standard Life			
POOLED INVESTMENT VEHICLES			
Private equity - overseas		20,664	19,799
Aviva Lime Property			
UK UNIT TRUSTS			
Property		59,518	64,316
Threadneedle Pensions			
POOLED INVESTMENT: Property		76,857	84,778
Baring English Growth Fund			
UK UNIT TRUSTS		15	-
Thesis			
POOLED INVESTMENT: Property		26,502	27,674
BNY Mellon			
CASH DEPOSITS : Sterling		6,790	6,896
outstanding fx trades		-896	-2
		5,894	6,894
Legal & General			
POOLED INVESTMENT VEHICLES			
Managed funds		97,569	147,199
Franklin Templeton			
Pooled Investment Global Property		20,667	18,833
Schroders			
Pooled Investment Multi Asset		107,232	128,530

BMO

Pooled Investment Managed Funds

- 74,776

LGIM

Pooled Investment Managed Funds

- 31,805

Total Investment Assets

1,253,609 1,333,985

11: 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

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2018 which comprise the Fund Account, Net Asset Statement and the related notes, including the accounting policies.

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 2018 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Respective responsibilities of the Corporate Director of Resources and the auditor

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities the Corporate Director of Resources 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 2017/18.

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 2017/18.

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, the purpose of our audit work and to whom we owe our responsibilities.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if we have exercised our responsibilities in respect of the pension fund in the following areas:

- any matters 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;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



Neil Hewitson

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London E14 5GL

21 September 2018

12: 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.

13: The fund's statutory statements

13.1 Investment strategy statement

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.

The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/information/adviceandinformation/20172018/20170621lbiinvestmentstrategystatement.pdf>

13.2 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).

The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/information/adviceandinformation/20172018/20170509fundingstrategystatement2017.pdf>

13.3 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.

13.3.1. 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.

13.3.2. Delegation of functions

Governance principles: Effective board delegation; appropriate accountability

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

13.3.2.1 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.

13.3.2.2 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).

13.3.2.3 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).

13.3.2.4 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).

13.3.2.5. 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

13.3.3. Terms of reference and decision making

Governance principle: Effective board / delegation; written plan policies

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

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

- To consider policy matters in relation to the pension scheme, including the policy in relation to early retirements
- To administer all matters concerning the council's pension investments in accordance with the law and council policy.
- To establish a strategy for disposition of the pension investment portfolio.
- To determine the delegation of powers of management of the fund and to set boundaries for the manager's discretion.
- To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the Investment Managers. (Note: The allocation of resources to the pension fund is a function of the Executive)."

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

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

13.3.3.1. 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.

13.3.4 Operational procedures

13.3.4.1 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.

13.3.4.2 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.

13.3.4.3 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.

13.3.4.4 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.

13.3.4.5. Relevant documents

Funding Strategy Statement

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

Investment Strategy Statement

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

13.4 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 5th April.

13.5 Governance compliance statement

13.5.1. 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.

13.5.2. 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 in 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.

13.5.3. 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

13.5.4. 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.

13.5.5. 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.

13.5.6. 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.

13.5.7. 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.

13.5.8. 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.

13.5.9. 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.

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

14: More information and comments

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

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

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